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ABSTRACT

This student handbook was designed for a course which offers people aged 55 and older guidance in starting and operating a small business. Following introductory remarks concerning small businesses, information and assignment sheets related to each of the course's basic units are presented. Course units include the following: (1) Small Business Today, designed to acquaint the student with the nature of small business and the characteristics of a successful entrepreneur; (2) The Business Plan, devoted to understanding the elements of plan development; (3) Marketing, with information concerning market research and the development of a marketing plan; (4) Site Location; (5) Advertising; (6) Financial Management, with assistance in identifying the elements of an accounting system, analysis of financial statements, and budget preparation; (7) Management; (8) Legal Aspects of three forms of businesses (i.e., sole proprietorship, partnership, and corporation), with information on rules about contracts and liabilities; (9) Insurance; (10) Taxes, designed to familiarize the student with federal, state, and local tax obligations; (11) Buying or Starting a Small Business; and (12) Raising Capital. Appendices include a bibliography, a community resource list, and a list of selected readings. (LAL)

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SMALL BUSINESS
Course for Older Americans

STUDENT HANDBOOK

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JC 830 505

SMALL BUSINESS
Course for Older Americans

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One Dupont Circle N.W., Suite 410, Washington, D.C. 20036
DALE PARNELL, PUBLISHER

Small Business Course

Student Guidebook

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HOW TO USE THE STUDENT GUIDEBOOK

Welcome to the Small Business Course for Older Americans. The Student Guidebook is designed to help you get the most benefit from the course. Let's take a moment to discuss the course and the responsibilities of the instructor and you, the student.

This course is geared to enable older people (55 years and older) to go beyond an interest in starting and operating a small business. Through the student workbook and other readings, the instructor's help, class discussion, interchanges with guest experts, and some homework, you will learn the requirements of starting and operating a small business. You will be encouraged to think systematically about the types of businesses you might start. Finally, you also will be helped to understand the kinds of things you can handle yourself and the kinds of help you will need from others both before and while operating a small business.

The course actually does not involve running a small business, but it will help you decide what tests you can apply in judging your interest in proceeding, what actions you must take before starting and after you decide to go ahead, what scale of resources you will need initially and later, and the places to obtain resources and assistance.

It is possible that after taking the course you may decide not to start your own business. If so, the tuition and time involved in coming to class and doing the readings can be considered a good investment. It is better to have learned this way than to have wasted much more time and money in a failed business venture. The course will give you the kind of advance workout that can appreciably increse your chances of success if you decide to proceed. The questions you will ask yourself and others, the answers you will receive, and the discipline of forcing yourself to ask critical questions and judge the answers will stand you in good stead whether or not you move forward with your own business.

The course is comprised of basic units plus supplemental material your instructor may use based on the needs of the class group. The units cover topics ranging from initial business planning to raising money and buying a business. The Table of Contents provides a list of all the course units.

Your instructor will use a variety of teaching methods, including lecture, discussion, audiovisual aids, and guest speakers to present the practitioner's viewpoint. Your instructor will present important information on small business, give and review assignments, answer questions, and refer you to other resources as needed; and also will guide you in the development of a business plan and loan package which are the major products of the course.

The Student Guidebook is designed to reinforce and supplement your classroom learning. It can serve as a valuable reference when you have

completed the course. The Guidebook also includes supplemental information sheets emphasizing important subtopics and assignment sheets for you to complete to reinforce class material. Some of the assignments may be done during class, others at home. Your instructor may have additional notes or materials that will be distributed during class.

The course provides the opportunity for you to explore ideas and business possibilities with your classmates and your instructor. You and your fellow learners are the stars of the course. As in all other aspects of life, you will get out of this learning experience what you put into it. Be an active participant in the discussions. You will not only learn more yourself, but you will be helping everyone in the class to learn more. Start talking to resource people in your community such as other business people, Chamber of Commerce representatives, and staffs of agencies who can provide information and assistance. You and your classmates also might work together on projects, sharing your skills and expertise. Your ideas for new products or services just might meet local needs and enrich your community's resources.

Owning a small business is still part of the "American Dream" for many of us. We hope this course will help you start your own venture if you decide that doing so would be right for you. We invite your comments and suggestions on the Student Guidebook and the Small Business Course for Older Americans. Good Luck! Enjoy yourself!

INTRODUCTION

Small businesses constitute a dynamic and critical sector of the U.S. economy. Of America's 11 million businesses, 10.8 million of them are considered to be small businesses. Small firms employ some 60 million people and nearly 7 million people are self-employed. The total value of the goods and services they produce is estimated to exceed $500 billion. The ingenuity of people in small business has left its mark on our society. Small businesses produce most of the new jobs created, and they tend to be more innovative than big businesses. Among other things, small businesses have produced the stainless steel razor blade, the transistor radio, the automatic transmission, cellophane, and inexpensive ballpoint pens.

Small businesses employ only an individual or two, or they may employ over a thousand people. Some manufacture, assemble, or market a specific product like a fanbelt, a new pencil sharpener, or a line of products. Others provide services like tax assistance, house painting, or grass care. Some are started or operated with a view to making money; others get started because someone has an idea and wants to prove it as a good and marketable one. Still other small businesses are conducted because they help provide a focus in life for an individual, a couple, or a group, where money, while important or useful, is really a secondary interest.

Although the established successes are impressive, the failure rate for small businesses is high -- estimates range from 50 to 90 percent of all new businesses. What are the known causes for failure in small business? Lack of planning, inexperience, poor management, and undercapitalization account for most of the failures.

To make your venture a successful one, you will have to do some hard thinking about all of your resources. First and foremost, you should know your most important resource is you. As an older person, you have considerable experience and many skills that can be used in the business arena. You have worked with people in a variety of roles. You will need these interpersonal skills as well as knowledge of your business to succeed.

In our society, the image you project is important. You will have to sell yourself and your ideas to potential financiers, customers, and employees. Unfortunately, some people think that only young people go into business. This is a false image. If you find this negative attitude, you can combat it with the confidence of a well-prepared business person. By preparing carefully, by learning the language of business and using it properly, and by dressing appropriately for business appointments, you will communicate a positive image that will gain respect for you and an objective response to your business plan.

Remember, while many people are used to finding and dealing with older people in business, they are much less likely to encounter them in the process of trying to start one. Indeed, they may react with surprise and with

concern. If they are bankers or suppliers of goods and credit, they may harbor or actually voice doubts or ask questions about the long term prospects of your planned business. Apart from the fragile nature of many small businesses, a business being started by an older person may seem like a poor risk. Our society is one that has systematically written off people past age 55. We discount their productivity and relevance; employers have sought to retire them as quickly as possible and to deny them further training and promotion. Until recent years, they were rarely hired and were considered unteachable or uninterested in learning new things.

Against this background, persons you approach for loans, credit, or inventory, people you go to for advice on business operations, may appear to be looking past you to discover someone younger in the ownership and management of the organization who represents a longer term prospect, whether in terms of investment or continuity. This reaction may be offensive to you, but hostility will not make the situation better. Try to help the would-be supplier or advisor to see that you have answers to his or her questions. For instance, if age as a factor in prospective longevity is a problem, emphasize that beyond your being in good health, average life expectancy has lengthened considerably in the last 20 years. A 55-year-old male can still look forward to at least 20 years of life; a female at age 55 can expect to live even longer. The point is that you can speak confidently about being in business for anywhere from 5 to 15 years. Under today's tax laws, that is enough time to depreciate substantially many classes of equipment, and it is enough time to recover other forms of investment and make a plan for ownership succession.

You can add that while many small business concerns do fail, the age of the entrepreneurs involved is rarely a factor in the failures. You may not be able to change the mind of a banker or supplier. A lot of years and even public policy support have gone into building the stereotypes about older people that commmonly influence the judgments of such people and indeed, older people themselves. However, approach people in a non-belligerent way about why you have chosen not to be restricted to outmoded stereotypes. Ask them to help you on that basis.

UNIT 1: SMALL BUSINESS TODAY — SHOULD I GO INTO BUSINESS?

PURPOSE: The purpose of this unit is to acquaint you with the nature of small business and the characteristics of a successful entrepreneur.

OBJECTIVE: At the end of this unit, you will understand the traits required of a small business owner and the role of business in today's economy.

UNIT 1. SMALL BUSINESS TODAY — SHOULD I GO INTO BUSINESS?

The first question to ask yourself is whether you should start your own business. This unit focuses on the kinds of personal qualities associated with success in small business and discusses the many business options available.

Personal Qualities of Successful Small Business People

Small business owners are a dedicated group of people who work hard and whose hours on the job usually exceed the nine to five routine. The owner's commitment is the key to many successful small businesses. An entrepreneur is able to communicate ideas, lead, plan, be patient, and work well with people.

The following quick quiz might help you to decide whether starting a small business is right for you.[1]

Are you comfortable taking a reasonable risk?

Entrepreneurs take reasonable risks -- not gambles. In a gamble, only luck prevails; entrepreneurs try to shape events to the extent that they can. They avoid the sure thing and the gamble because neither provides them with the opportunity to maximize their skills and obtain personal satisfaction. The odds against you are stiff. The U.S. Small Business Administration (SBA) estimates that three out of four small businesses fail within their first five years; nine out of ten fail in ten years.

Do you feel self-confident?

Entrepreneurs are both self-confident and eager to find an arena in which to display this confidence.

Do you want to work hard and put in long hours?

The small business owner not only works long, hard hours, but also thinks about business matters when not at work. Dun & Bradstreet estimates that a majority of business failures result not from poor products, markets, or service, but instead from inadequate management.

Do you set goals for yourself?

Entrepreneurs are goal setters who are happiest when their goals are before them, not behind them. They are continually striving toward ambitious but realistic goals.

Business Options

What business options are you considering? Let's examine possible choices you might make as you enter the small business world.

Home Business

Establishing a business in your home, as many people are now doing, offers the advantage of flexible hours and lower starting costs. You are free to work either full- or part-time depending on your level of commitment. Consultants, artists, editors, typists, and accountants often work from their homes. Others with skills in appliance repair, carpentry, furniture refinishing, cooking, and sewing also have home businesses. Classes of all kinds may be held in the home: exercise, dance, music, and language instruction are just a few examples. Businesses that begin in someone's basement may become major enterprises.

Service Business Outside the Home

Some older people have skills that they can take out to other people's homes, places of community gatherings, or to someone's business location. An accountant, stockbroker, tax advisor, home health care provider, cook, caterer, designer, carpenter, electrician, translator, etc., can take his or her skills to where the service provided is most useful to customers. Others create things like works of art, leathercraft, pottery, or flower designs, and these can be displayed at community fairs, shopping centers, guild stores, and other public gathering or shopping places.

Traditional Independent

The traditional independent small business person is an entrepreneur in a manufacturing, retail, or service business who plans and designs the business; is adequately financed; and knows how to select a site, market the product or service, and manage finances, people, and time. If this option seems best for you, then this Guidebook will be helpful. It covers the major areas that the small business operator must consider to give the new business the best possible opportunity to thrive.

Getting Into Small Business

You can get going in a small business in several ways:

1. Start a new business
2. Buy an existing business
3. Buy a franchise.

Also, you can join in a partnership with one or more other people in doing any of the above. Starting a new business and partnership approaches will be discussed in more detail later in the course.

Buying an Existing Business

In buying an existing business, you are taking another person's business and changing it to make it your own. On the plus side, buying:

- o Will save you the enormous time and effort required to start a brand new business.
- o Will save basic start-up costs.
- o Represents more of a known quantity in regard to the firm's resources and capabilities.
- o Could increase your chances of success in business if the business is a good, solid one.

On the negative side of the ledger, buying:

- o Involves fewer options for the buyer, particularly in selecting location, buildings, equipment, and so on.
- o May require considerable money and effort to change an old image, modernize the facility, and attract a new clientele, if necessary.
- o Bequeathes you the hidden liabilities of the old firm such as negative attitudes among employees and customers or well-entrenched practices that are difficult to eliminate.

Franchising

Buying a franchise may be your preference as a potential business owner. The franchise is a contractual relationship between a buyer and a seller. You purchase the right to represent that firm in a given area and to use the firm's name to sell its product or service.

You are trained by the franchisor and assisted in starting your business. You might possibly benefit from the franchisor's analyses of marketing trends and ready-made ads and would probably qualify for purchasing discounts as well, but your costs could be high.

With many franchisors you might be buying a franchise -- like a mortgage -- for a given amount, making a downpayment, and paying the franchisor principle and interest on the amount owed. Some franchisors, however, provide no financing. You also would be required to have working capital to begin the business and to pay the franchisor a royalty, an amount which represents a specific percentage of your sales.

Obtaining a franchise with some large national chains, like fast-food restaurants, can be highly competitive. However, many reputable franchisors have emerged and franchising has become an increasingly popular way to do business. Although the quality of franchise operations has been steadily improving -- due in part to government regulation -- the potential franchisee should be cautious about entering any contractual agreement without investigating the franchisor's reputation, talking to other franchisees, and having a qualified lawyer thoroughly review the contractual agreement.

Form of Business

Whichever you decide to do -- start your own business, buy an existing firm, or become a franchisee -- you may choose from among three distinct forms of ownership:

1. Sole Proprietorship
2. Partnership
3. Corporation.

It may surprise you to find that the size of the business is not the deciding factor in your choice of which business form to select. Tax levels, ease of transferring ownership, and the amount of liaiblity involved differ among the three forms and are key factors in your decision.

The forms that lend themselves to continuity and shared responsibility might have advantages for the older entrepreneur. It is possible to have more free time in a partnership or a corporation than in a sole proprietorship. Also, lenders always are concerned about how their money will be repaid in the event of accident, injury, or death of the owner. Having partners or a corporate business form could make your firm more appealing to lenders.

Footnotes

1. Adapted from Nicholas C. Siropolis, Small Business Management: A Guide to Entrepreneurship, Boston: Houghton Mifflin, 1977, pp. 28-33.

SUPPLEMENTAL INFORMATION

Characteristics of a Small Business

What is a small business? The image that immediately comes to mind is the "mom and pop" grocery store so common all over the United States. However, a retail store that does $7 million in sales a year also may be a small business!

One test for determining a small business is suppled by the U.S. Small Business Administration. The SBA defines a small business as one that is independently owned and operated, not dominant in its field, and meets employment or sales standards developed by the SBA. For most industries, the standard ranges are:

Manufacturing - The number of employees may range up to 1,500, depending on the industry in which the business is primarily engaged.

Wholesaling - Yearly sales not exceeding $9.5 million to $22 million, depending on the industry.

Services - Annual receipts less than $2 million to $8 million, depending on the industry.

Retailing - Annual sales not exceeding $2 million to $7.5 million, depending on the industry.

Construction - General construction: average annual receipts not exceeding $9.5 million for prior three fiscal years. Special trade: not exceeding $1 million or $2 million, depending on the industry.

Unlike larger businesses where there are managers for various functions, in many small businesses the owner-manager "wears a number of hats." He or she may be the chief executive, head bookkeeper, personnel director, sales manager, public relations specialist, etc. The small business owner generally contracts with outside agencies and professionals for services like accounting, legal, advertising, etc., as needed.

In addition, the owner-manager generally supplies much of the start-up capital, especially in proprietorships and partnerships. A small business cannot meet all the needs of all people, so it must develop its own place, or niche, in the total market.

SUPPLEMENTAL INFORMATION

Traits of Successful Entrepreneurs

Many management specialists and research scientists have attempted to define the traits of the successful entrepreneur. While there is disagreement over the specifics, most agree that the following characteristics are important:

- o Ability to get along with people
- o Good health and energy
- o Creativity and independence
- o Ability to organize
- o Willingness to dig for facts and get questions answered
- o Ability to make decisions -- good judgment
- o Some business background
- o Drive and confidence
- o Willingness to make sacrifices
- o Ability to handle pressure
- o Ability to manage time effectively.

Other researchers have identified such traits as:

- o Need for achievement
- o Feeling of being in control of your own destiny
- o A preference for functions and tasks related to entrepreneurship
- o Flexibility
- o Technical competence
- o Persistence
- o Resistance to standard operating procedure -- leadership.

Another important quality of successful small business entrepreneurs is that they are interested and actively involved in their communities. Many small business owners become so caught up in the operations of their businesses that they neglect outside interests. In some cases, it is possible for a small business to attract its own market. However, most small businesses depend upon customer volume generated by community factors like safe street locations, good transportation, community spirit and attractiveness, employment conditions, and good will. You can join with others to work for conditions favorable to your business. In addition, some people in the community may be skeptical about an older person starting a business and your involvement in community affairs and civic projects can be a way of demonstrating your spirit and determination. It also may help you estab-

lish friendships and critical linkages that can come in handy when you need a loan or assistance. While the business must be your primary concern, it should not be your only concern.

It is important to continue learning about small business as you develop yours. Local Chamber of Commerce programs, trade organizations, and local education institutions provide ways to do this.

CLASS ACTIVITY

Starting Your Own Business — A Quick Self-Assessment Checklist

You want to own and manage your own business. It is a good idea -- provided you know what it takes and have what it takes. Starting a business is risky at best, but your chances of making it increase if you understand the problems you will meet and work to solve as many of them as you can before you start.

Here are some questions to help you think through what you need to know and do. Under each question, check the answer that says what you feel, or comes closest to it. Be honest with yourself.

Are you a self-starter?

____I do things on my own. Nobody has to tell me to get going.

____If someone gets me started, I keep going all right.

____Easy does it. I do not put myself out until I have to.

How do you feel about other people?

____I like people. I can get along with just about everybody.

____I have plenty of friends. I do not need anyone else.

____Most people irritate me.

Can you lead others?

____I can get most people to go along when I start something.

____I can give orders if someone tells me what we should do.

____I let someone else get things moving, then I go along if I feel like it.

Can you take responsibility?

____I like to take charge of things and see them through.

____I will take over if I have to, but I would rather let someone else be responsible.

____There is always some eager beaver around wanting to show how smart he or she is. I say let him or her.

How good an organizer are you?

____I like to have a plan before I start. I am usually the one to get things lined up when the group wants to do something.

____I do all right unless things get too confused; then I quit.

____You get all set and then something comes along and presents too many problems. I just take things as they come.

How good a worker are you?

____I can keep going as long as I need to. I do not mind working hard for something I want.

____I will work hard for awhile, but when I have had enough, that is it.

____I cannot see that hard work gets you anywhere.

Can you make decisions comfortably?

____I can make up my mind in a hurry if I have to. It usually turns out O.K., too.

____I can make up my mind if I have plenty of time. If I have to make decisions quickly, I think later that it should have been decided another way.

____I do not like to be the one who has to decide things.

Can people trust what you say?

____You bet they can. I do not say things I do not mean.

____I try to be on the level most of the time, but sometimes I just say what is easiest.

____Why bother if the other fellow does not know the difference?

Can you stick with it?

____If I make up my mind to do something, I do not let anything stop me.

____I usually finish what I start -- if it goes well.

____If things do not go right from the start, I quit. Why beat your brains out?

How good is your health?

____I never run down.

____I have enough energy for most of the things I want to do.

____I run out of energy sooner, it seems, than most of my friends.

Now count the checks you made. How many checks are there beside the first answer in each question? the second answer to each question? the third answer to each question?

If most of your checks are beside the first answer, you probably have what it takes to run a business. If not, you are likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points where you are weak. If many checks are beside the third answer, not even a good business partner will be able to shore you up.

Source: Occupational Quarterly, Winter 1979, SBA Management Aids #171.

CLASS ACTIVITY

Starting a Small Business — A Checklist

Do not be discouraged if at the outset you cannot answer many of the questions below affirmatively. This course is designed to encourage you to think critically and to pursue these questions so that you ultimately will have a strong basis for deciding about whether to attempt involvement in a small business venture and the investment of time and money it requires. As you read each question, think about how much thought you have given to it.

Before you start, have you considered the following?

____Have you decided on the type and nature of the business you want to start?

____Think about why you want to own your own business. Do you want to do it badly enough to keep you working for long hours without knowing how much money you will end up with in the business?

____Have you worked in a business like the one you want to start?

____Have you worked for someone else as a foreman or manager?

____Have you had any business training in school?

____Have you saved any money?

How about money?

____Do you know how much money you will need to get your business started?

____Have you counted up how much money of your own you can put into the business?

____Do you know how much credit you can get from your suppliers, e.g., the people from whom you buy?

____Do you know where you can borrow the rest of the money you will need to start your own business?

____Do you know which of your assets you could pledge, if necessary, to help secure a loan?

____Can you live on less than what you currently do so that you can use some of your money to help your business grow?

____Have you talked with relations, a banker, or others about your plans?

____Have you decided to buy a going concern, invest in a franchise, or start your own business "from scratch?"

What type of business to do want to start? How about a partner?

____If you need a partner with money or know-how that you do not have, do you know someone who will fit; someone you can get along with?

____Do you know the good and bad points about going it alone, having a partner, and incorporating a business?

____Have to talked to a lawyer about it?

How about your customers?

____Do most businesses in your community seem to be doing well?

____Have you tried to find out whether a business like the one you want to start is doing well in your community and in the rest of the country?

____Do you know what kind of people will want to buy what you plan to sell or use the services you plan to provide?

____Do people like to live in the area where you want to open your business?

____Do they need a business like yours?

____If not, have you thought about opening a different kind of business or going into another neighborhood?

____How will you let people know what goods or services you will provide and your prices or charges?

Getting started.

____Have you looked for a good building for your business, or are you going to operate out of your home?

____Will you have enough room when your business gets bigger? (Consider the building you might choose and the adequacy of your home.)

____Can you fix the building or your home the way you want it without spending too much money?

____Can people get to it easily from parking spaces, bus stops, or their homes?

____Have you had a lawyer check the lease and zoning relative to the conduct of the business you would like to operate?

Equipment and supplies.

____Do you know what equipment and supplies you will need and how much they will cost?

____Can you save money by buying secondhand equipment?

____Have your studied tax treatments and depreciation rules relative to the types of equipment you will need?

____Do you know how much equipment and merchandise you will buy to start your business?

____Have you found suppliers who will sell you what you need at a good price?

____Do you know how to reach the suppliers you will need?

____Have you compared the prices and credit terms of different suppliers?

Your records.

____Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?

____Have you worked out a way to keep track of your inventory so that you always will have enough on hand for your customers but not more than you can sell?

____Have you figured out how to keep your payroll records and take care of tax reports and payments?

____Do you know what financial statements you should prepare?

____Do you know how to use these financial statements?

____Do you know an accountant who will help you with your records and financial statements?

Your place of business and the law.

____Do you know what licenses and permits you will need?

____Do you know what business laws you have to obey?

____Do you know a lawyer you can go to for advice and for help with legal papers?

Protecting your store.

____Have you made plans for protecting your place of business against thefts of all kinds: shoplifting, robbery, burglary, employee stealing, or vandalism?

____Have you talked with an insurance agent about the kinds of insurance you need?

Buying a business someone else has started.

____Have you made a list of what you like and do not like about buying a business someone else has started?

____Are you sure you know the real reason why the owner wants to sell the business?

____Have you compared the cost of buying the business with the cost of starting a new business?

____Is the stock up to date and in good condition?

____Is the building in good condition?

____Will the owner of the building transfer the lease to you?

____Have you talked with other business people in the area to see what they think of the business?

____Have you talked with the company's suppliers? customers?

____Have you talked with a lawyer about buying someone else's business?

Making it go.

Advertising.

____Have you decided how you will advertise (i.e., newspapers, posters, handbills, radio, by mail)?

____Do you know where to get help with your ads?

____Have you watched what other people do to get people to buy their product or service?

The prices you charge.

____Do you know how to figure what you should charge for each item you sell or the service you provide?

____Do you know what other businesses like yours charge?

Buying.

____Do you have a plan for finding out what your customers want?

____Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?

____Do you plan to buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed?

Selling.

____Have you decided whether you will have sales clerks or self-service, or employ smeone to help you provide your service?

____Have you thought about why you like to buy from some sales people while others turn you off to them?

Your Employees.

____If you need to hire someone to help you, do you know where to look?

____Do you know what kind of person(s) you need?

____Do you know how much to pay the help you plan to have?

____Do you have a plan for training your employees?

Credit for your customers.

____Have you decided whether to let your customers buy on credit?

____Do you know the good and bad points about joining a credit card plan?

____Can you tell a deadbeat from a good credit customer?

____Can you manage to meet your cash flow needs month-to-month if a portion of your capital is tied up in credit and you owe others for what they are supplying to you?

A few extra questions.

____Have you figured out whether you could make more money working for someone else?

____Does your family go along with your plan to start a business of your own?

____Do you know where to find out about new ideas and new products?

____Do you have a work plan for yourself and your employees?

____Have you gone to the nearest Small Business Administration office or to another business resource in your community for help with your plans to start a business?

____If you are buying out a business and have agreed to pay off the former owner or his or her estate, will the outlay for these payments have to come from your working capital? If so, such a demand may place your cash position in a condition of constant stress.

If you have answered all these questions carefully, you have done some hard work and serious thinking. That is good. But, most likely, you have found many things you still need to know more about or do something about.

Do all you can for yourself, but do not hesitate to ask for help from people who can tell you what you need to know. Remember, running a small business takes guts and persistence. You have to be able to decide what you need and then go after it. Keep asking questions when the essential facts are not really clear to you.

Good luck!

Source: Occupational Quarterly, Winter 1979, SBA Management Aids #171.

SUPPLEMENTAL INFORMATION

Investing in a Franchise

Before you invest in a franchise, you should find out the pros and cons of that particular firm. The best sources of information about a franchise business are:

1. The International Franchise Association
   1025 Connecticut Avenue, N.W.
   Washington, D.C. 20036

2. The Federal Trade Commission
   6th and Pennsylvania Avenue, N.W.
   Washington, D.C. 20580

It is important to know that every state requires franchises to publish a disclosure document. This is to prevent the franchise firm from making false claims. It protects the prospective purchaser, but does not tell much about the particular franchise.

You also should speak with other franchisees. This may prove to be the greatest help of all.

Further suggestions before buying a franchise are:

- o Hire an experienced and knowledgeable franchise lawyer who will examine closely what the franchise is offering and will examine the contract in detail for you.

- o Use your sources of information to read and find out what is going on in the franchise market. For example, it is a decided mistake to choose a fast-food service franchise that has saturated the market in the area where you plan to locate.

- o Look into the problem of "encroachment." Encroachment occurs when a franchise invades a location where the same franchise is established. It could hurt "your territory" if you owned the franchise.

When you do decide to buy a franchise:

- o Check the franchise's reputation and stability.
- o Do not accept promises made "in thin air" -- get everything in writing.
- o Clearly understand that approximately six percent of the money "on the top" of your business goes to the franchisor (approximately two percent for promotion of the "gross take" and approximately four percent as a royalty fee).

Some of the positive aspects of owning a franchise are:

- o The failure rate is remarkably low.
- o Buying a franchise is a good way to get into a business without all the problems of "start-up."
- o The franchise firm will furnish its name, marketing of the business, and distribution.
- o The franchise buys in quantity and passes savings on to you as the business owner.
- o As a franchise business owner, you do not have to know the industry as well as you might if you started from "scratch."

SUPPLEMENTAL INFORMATION

Small Business Ideas

Many older people do not want to sit idly or they want to do something to earn extra income or enough money to keep up with living costs. The question usually asked by these people is: What could I do that I could afford and that I could really manage?

Some people become troubled about the difficulties and financial risks involved in buying out an existing business. Others get stumped at not having a good idea around which to build a business. The first step, therefore, is to look around the community and see what needs doing and is not being done locally, or is not being done at an attractive price, or is not being done adequately in terms of quality, accessibility, or frequency. If you have asked yourself the question above, then begin moving about your community. Talk to business owners, friends, associates, neighbors, and your local Chamber of Commerce. If through this process you identify a likely small business idea, quietly check it out in the various ways suggested here. Keep asking yourself in a rigorous way: Could I really fill the need I have identified? Have I the resources? The energy? Could I meet the need and still make a profit? How would I do it?

There are all sorts of unmet needs in every community, but you should try to determine whether the people who have the needs will pay adequately to enable you to start a business and make a profit around meeting one or more needs.

As a start, you might consider the following types of unmet needs:

1. Small Household Repairs and Chores

Most homes have accummulated breakdowns of one sort or another: broken sidewalks; crumbled asphalt; doors or windows that are warped; locks that do not work or are missing keys; gutters or pipes that are plugged; faulty or inadequate wiring; clogged fireplaces; broken wood fences; or old clothes that clutter closets and attics.

Many of these problems are easily solved, but the homeowner or landlord may not have the time or the inclination, the labor force, or the knowledge to do something about them. Existing contractors or service units may charge too much or may not want to bother with what they regard as a "too small job." If you approach the homeowner or landlord in the right way, you could build a profitable market in meeting their unmet needs. With partners or hired helpers, your approach might be that you will resolve the problem for them quickly and at a low cost. If you appear ready to act, keep your operating costs low, and do a good job, you will attract clientele and their word of mouth support in the community.

Your profits, most likely, will come gradually from growing volume rather than from high individual unit pricing. Even if your charges have to be a little high, your sales pitch can be that no job is too small, that you are dependable, and that you will do the job well. People usually feel guilty about not having moved themselves to deal with the kinds of problems listed above. Present yourself as someone who can rid them of both the eyesore and the guilt. They will pay for that and call you again on another job.

2. Unmet Business Needs

In many communities and neighborhoods, small business persons have unmet services or other needs that hurt them but are too costly to meet at standard commercial charges. Examples are: inadequate accounting or tax advice; inadequate knowledge of techniques of product display, advertising, packaging, inventory control, or estimating turnover; inadequate means of collecting on delinquent accounts; too little help in financial management, tailoring, or pricing, etc.

You, as a would-be small business operator, could investigate the extent of these kinds of unmet needs of small businesses in your area and determine whether you and your partners or employees could meet some of these needs and operate profitably.

3. Talent Banks

In some communities, groups of skilled older people have set themselves up as consultant to non-profit organizations in the arts, human services, legal aid, and many other fields. Small, non-profit organizations often cannot afford full-time, paid staffs and many try to get by with an executive director and volunteers. Such arrangements can work, but not uncommonly the organizations fail to grow and limp along with inadequate support. They also experience regular financial crises and fail to realize their expectations.

The consultant groups noted above offer their part-time services to the organizations at relatively low rates. Either as individuals or in teams, they come in periodically and set up and keep accounts; keep membership lists up-to-date; prepare organizational promotion brochures, fund-raising appeals, newsletters, and annual reports; they help organize conferences and prepare conference follow-up reports; and help structure membership drives. Some also assist in matching the services the organization provides with people in need of those services.

The talent bank can be a small business operation, and the people who have the talents or skills can operate as partners or function on a self-employed basis.

4. Gap-Filling Personnel Agencies

Both small and some larger businesses periodically have needs for extra hands or skills to work on sales drives and other promotions, seasonal changeovers in stock or models, reorganizations, monthly billings, and other non-regular events. Keeping full-time people on board to help meet these periodic needs is too expensive. Some small businesses organize gap-filling services to supply special types of personnel to other businesses to help them meet fluctuating or seasonal needs. As a part of their services, they also are the "employer of record" for part-time personnel for purposes of payroll, paying Social Security, and other employee-based taxes. They constitute a group for various types of life and health insurance plans that are less expensive when offered to a group of employees. These arrangements spare the host employer many of the complications and costs of payroll and providing fringe benefits to temporary employees.

Instead, business owners contract with the gap-filling personnel agency for specific numbers of people and types of skills needed at particular times. Sometimes the host employer and the gap-filling personnel agency join in paying for the training or retraining of people who then constitute a pool of potential employees who are on top of the latest advances in production, word processing, or computer skills needed by the host employer. The temporary employees hired and paid this way gain from being hired on a part-time basis, and they have a better chance of keeping their skills fresh and marketable.

Older people can organize and operate gap-filling personnel agencies or serve as temporary personnel for such agencies.

5. Other Community Needs

In every community, there are people who have needs they cannot fill themselves and are willing to pay others to handle for them. Such needs may include: catering; landscaping; lawn and garden care; window washing and screen cleaning; arranging the details of weddings and other celebrations; editing and writing; public relations and promotion ideas; finding needed services for others; etc.

People who can set themselves up to perform services like these can carve out a profitable small business for themselves. In some cases, such people might have a necessary skill themselves, or they could develop partnerships with other skilled people, or they could hire skilled people to do what is required.

CLASS ACTIVITY

Buying a Business

If you are considering buying an existing business rather than starting one from the ground up, these steps might be helpful to you.

- o Find out why the current owner is selling. Perhaps the owner has some information about a possible private or public construction plan that could seriously affect business. You will have to check out all the angles. Beware of "bargain" business opportunities; many have been victimized by what seemed like the best possible offer at the time.

- o Determine how profitable the business is now and has been for several years. This will require an intense analysis of the business.

- o Have an accountant conduct an audit to make certain that the records you are obtaining are accurate and statements are complete.

- o Weigh the assets of the business against the liabilities. It is wise to have your accountant verify the assets and their condition by physically checking the inventory, for example. Also, such concepts as good will in the community are often used as selling points -- however, they may or may not help if you become the next owner.

Source: Adapted from H. N. Broom and Justin G. Longenecker, Small Business Management, Cincinnati, Ohio: South-Western Publishing Company, 1979, pp. 64-70.

HOME ASSIGNMENT

Your Proposed Business

This is a home assignment to develop a concise description of the proposed business. Be sure to detail what is unique. This description will become a key component of your financial proposal to potential lenders and /or investors. It also can serve as the basis for advertising descriptors. Before the next class session, read the following items and write your answers. Bring the results of your home assignment to discuss in the next class session.

1. Describe the service(s) or product(s).

2. Decide if the buinsess is to be a sole proprietorship, partnership, or a corporation. Explain why you made this choice.

3. What need(s) does this proposed business meet? If no current demand exists, how can one be created?

4. What is different about this business? How does it compare or contrast with similar products or services in the community where you plan to start the business? How will it compete with similar products or services in the community?

5. How and what will draw customers/clients?

6. What other factors encourage the opening of this business? Examples: timing; industry growth; shift in population.

UNIT 2: THE BUSINESS PLAN

PURPOSE: The purpose of this unit is to introduce you to the importance of a business plan.

OBJECTIVE: At the end of this unit, you will be able to identify the uses of the business plan and have an understanding of the major elements in developing the plan.

UNIT 2. THE BUSINESS PLAN

Many small businesses fail because they never had a business plan. Preparing the business plan is an essential first step in starting a firm. The plan serves several important purposes:

1. To cause you to explore, think through, and make decisions about the key factors of organizing and operating a business.

2. To monitor the direction of the business throughout its life.

3. To raise the capital that new businesses will require.

Given the changing, modern business world, prospective business owners cannot afford to be without a business plan. Elements of your plan should be constantly adjusted with changes in the business climate, product use, or your vision for the business. Equally as important, bankers and investors want to see a carefully thought out plan that clearly projects needs and expectations for all aspects of your business.

This unit gives some general guidelines that will serve you well as you develop your plan. The work you do in this course will lead through the development of your business plan. Six steps are outlined. The first three steps establish goals, objectives, and strategies; the final three steps test those strategies.[1] The six steps are:

1. Define long-term goals.

It is a common mistake to neglect long-range planning. Long-term goals should form a framework for short-term objectives. It is suggested that you check the long-term goals you list for practicality and for goals that may be conflicting. For example, in some types of businesses you may face the question whether to manage your business to generate cash flow or to build asset value in real estate or investment. Cash flow will be pinched if the focus is on building investments for the future. As an older business owner-manager, you might find that you prefer to emphasize cash flow rather than investments that produce high profits later.

2. State short-term objectives.

You should measure short-term objectives in time, dollars, and other specific figures, such as units sold. The objectives should be attainable within a relatively brief time frame. Make a list of your objectives in order of priority. For example, your list might include the following:

- o Cut utility costs by 10 percent a month.
- o Increase sales by $500 a month.

3. Set marketing strategies to meet goals and objectives.

Since profitable sales are the foundation of business, the new entrepreneur should be prepared to spend up to 75 percent of all planning time on market strategy. Marketing strategies are based on the following questions:

- o Who will buy what products or services from me at a profitable price?
- o Where, when, and why will they buy them?

As planner, you must determine what kinds of customers will buy and where they are most likely to be in the foreseeable future. You must assess the market and must know the strengths and weaknesses of competing products or services. The market plan should:

- o Be as precise as possible.
- o Include budgets for promotion.
- o Be based on facts and figures you have checked for accuracy.
- o Provide for travel, if necessary.
- o Include whatever is important to selling the product or service.

Marketing and advertising are discussed in detail in later units.

4. Analyze available resources.

This is a "rethinking" step. A measure of a successful analysis is the amount of pain it causes you to do it. In other words, take a hard, objective look at your proposal. You have to determine whether you have the resources -- in personnel, materials, and money -- to make the business plan work. Consider who and what will be needed as the business gets underway and again in a few years, given the goals and objectives stated in the plan.

5. **Assemble financial data.**

The prospective owner should use financial statements to analyze the business. The balance sheet, which shows the assets and liabilities of the business, is helpful in maximizing use of all of the firm's resources. Careful analysis of the cash flow and of profit-and-loss statements can keep your business on track.

Profit-and-loss projections have two functions:

- o They express the sales and operating objectives in time and amounts.
- o They are the control documents on which the cash flow and operating budgets are based.

Sample financial statement forms are included in this unit; see "Guidelines for Preparing a Business Plan."

6. **Review for consistency, coherence, and realism.**

In a coherent plan, all the goals, long and shortterm objectives, and strategies for reaching objectives must be complementary. One part of the plan leads to the next in a smooth transition and all areas of the business are covered. The key questions to ask at all stages are:

- o Does this idea make good business sense?
- o Will it work?
- o How will you know if it is working?
- o How will you know when to stop and cut your losses if it proves unworkable?

Think of your plan in relation to both the national economy and the market for your product or service. You should refer to the plan continually as a management tool, revising it as real-world experience dictates.

You will be preparing a business plan starting with this unit and will continue to develop your plan as you learn about marketing, accounting, advertising, and management. Before the course is completed, you will have a chance to review your business plan and make necessary changes. Reviewing the guidelines presented here will help to check the plan as it develops.

SUPPLEMENTAL INFORMATION

Required Project

Use the following guidelines to prepare a complete and detailed plan for a new or established business. The following suggested areas should be included, but do not feel limited by these.

1. Type of business
2. Location
3. Target market
4. Planning process
5. Decision-making process to be used
6. Organizational structure
7. Staffing procedures
8. Control
9. Marketing strategy
10. Financial procedures -- capital necessary to start a business
11. Security
12. Managing human resources
13. Safeguarding your assets
14. Others

This project measures your ability to organize various data into an intelligent and systematic small business plan.

Required Project

Suggested Cover Sheet for Business Plan

Name of Company

Address

Telephone Number

Date

Names of Principals

Required Project — Suggested Outline for Business Plan

Statement of Purpose

Table of Contents

1. The Business

    a. Description of business
    b. Market
    c. Competition
    d. Location of business
    e. Management
    f. Personnel
    g. Application and expanded effect of loan (if needed)
    h. Summary

2. Financial Data

    a. Sources and applications of funding
    b. Capital equipment list
    c. Balance sheet
    d. Breakeven analysis
    e. Income projections (profit and loss statements)

        (1) Three-year summary
        (2) Detail by month for first year
        (3) Detail by quarter for second and third years
        (4) Notes of explanation

    f. Pro-Forma Cash Flow

        (1) Detail by month for first year
        (2) Detail by quarter for second and third years
        (3) Notes of explanation

    g. Deviation Analysis

    h. Historical Financial Reports for Existing Business

        (1) Balance sheets for past three years
        (2) Income statement for past three years
        (3) Tax returns

3. Supporting Documents

    a. Personal resumes, financial requirements, and statements
    b. Cost of living budget
    c. Credit reports
    d. Letters of reference
    e. Job descriptions
    f. Letters of intent
    g. Copies of leases, contracts, and other relevant documents

Required Project — Suggested Steps in Preparing a Business Plan

Step Number	Description of Steps
1.	Decide to go into business for yourself.
2.	Analyze your strengths and weaknesses, paying special attention to your business experience, business education, your desires, and your age and physical condition. Then answer this question: Why should I be in business for myself?
3.	Choose the product or service which best fits your strengths and desires. Then answer these questions: What will my product or service do for customers? What is unique about my product or service? How do I know it is unique? What will it not do? What should it do later but does not do now?
4.	Research the market for your product or service to find answers to such questions as these: Who are my customers? Where are they? What is their average income? How do they buy? At what price and in what quantities? When do they buy? When will they use my product or service? Where will they use it? Why will they buy it? Who are my competitors? Where are they located? How strong are they? What is the total market potential for my product? Is it growing?
5.	Forecast your share of the market. Then forecast your sales or service revenues over a three-year period, broken down as follows: First year -- monthly Second year -- quarterly Third year -- quarterly

Step Number	Description of Steps
	Next, answer this question: Why do I believe my sales revenue forecast is realistic?
6.	Choose a site for your business, then answer this question: Why do I prefer this site to other possible sites?
7.	Develop your production or service plan, answering such questions as these: How big should my operation be? How should my production or service process be laid out? What equipment will I need? In what size? How will I control the waste, quality, and inventory of my product or service?
8.	Develop your marketing plan answering such questions as these: How am I going to attract customers? At what price? By what kinds of advertising and sales promotion? If through personal selling, how?
9.	Develop your personal plan answering this question: What kinds of talent will I need to make my business go? Draw an organizational chart that spells out who does what, who has what authority, and who reports to whom.
10.	Decide whether to form a sole proprietorship, a partnership, or a corporation. Explain your choice.
11.	Outline the kinds of records and reports you plan to use and how you will use them.
12.	Develop your insurance plan answering this question: What kinds of insurance will I need to protect my venture against possible loss from unforeseen events?

Step Number	Description of Steps
13.	Develop your financial plan by preparing such statements as these: o A three-year cash budget, showing how much cash you will need before opening for business, and showing how much cash you expect will flow in and out of your business broken down as follows: First year -- monthly Second year -- quarterly Third year -- quarterly o An income statement for the first year only. o Balance sheets for the beginning and end of the first year. o A profitgraph showing when you will begin to make a profit. Then determine how you will finance your business and where you expect to raise money.
14.	Write a cover letter summarizing your business plan, stressing its purposes and its promise.

SUPPLEMENTAL INFORMATION

Sample Balance Sheet

ABC Company

December 31, 1983

BALANCE SHEET

Cash	$	Notes payable, bank	$
Accounts receivable		Accounts payable	
Inventory		Accruals	
Total current assets	$	Total current liabilities	$
Equipment and fixtures		Total liabilities	$
Prepaid expenses		Net worth	
Total assets	$	Total liabilities and net worth	$

ABC Company

December 31, 1983

BALANCE SHEET

Cash	$ 1,896	Notes payable, bank	$ 2,000
Accounts receivable	1,456	Accounts payable	2,240
Inventory	6,822	Accruals	940
Total current assets	$10,174	Total current liabilities	$ 5,180
Equipment and fixtures	1,168	Total liabilities	$ 5,180
Prepaid expenses	1,278	Net worth	7,440
Total assets	$12,620	Total liabilities and net worth	$12,620

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

SUPPLEMENTAL INFORMATION

Sample Income Statement

ABC Company

October 1 - December 31, 19__

	Dollars		Percent
Net sales			%
Cost of goods sold			%
Gross profit on sales	$		%
Expenses			
Wages	$		%
Delivery expense			%
Bad debts allowance			%
Communications			%
Depreciation allowance			%
Insurance			%
Taxes			%
Advertising			%
Interest			%
Other charges			%
Total expenses		$	%
Net profit		$	%
Other income			%
Total Net Income		$	%

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

SUPPLEMENTAL INFORMATION

Sample Income Statement

ABC Company

October 1 - December 31, 19__

	Dollars		Percent
Net sales	$ 68,116		100.0
Cost of goods sold	47,696		70.0
Gross profit on sales	$ 20,420		30.0
Expenses			
Wages	$ 6,948		10.2
Delivery expense	694		1.4
Bad debts allowance	409		0.6
Communications	204		0.3
Depreciation allowance	409		0.6
Insurance	613		0.9
Taxes	1,021		1.5
Advertising	1,566		2.3
Interest	409		0.6
Other charges	749		1.1
Total expenses		$13,282	19.5
Net profit		$ 7,138	10.5
Other income		886	1.3
Total Net Income		$ 8,024	11.8

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

SUPPLEMENTAL INFORMATION

Sample Cash Flow Statement

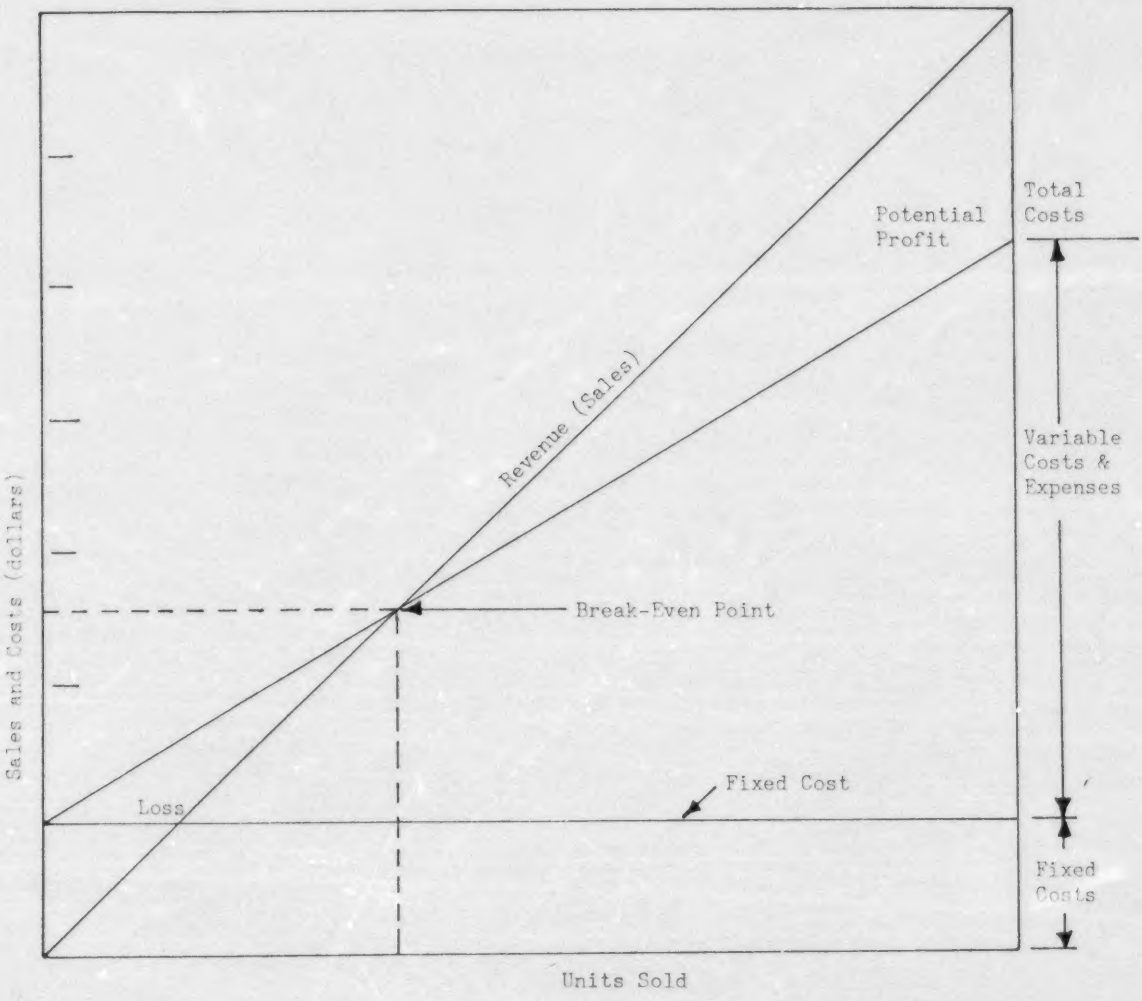
FIELDS OF FLOWERS

Cash-Flow Analysis
Year Ending December 31, 1983

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Beginning Cash	$13,850	$10,718	$12,645	$12,601	$11,706	$13,285	$15,365	$16,223	$16,227	$16,027	$15,840	$14,270
Cash Sales	4,690	6,440	5,250	7,000	9,590	5,110	4,340	4,060	4,480	4,690	4,900	9,450
Collections	0	1,508	2,552	2,350	2,790	3,803	2,629	1,921	1,751	1,858	1,968	2,057
Other Cash In	0	0	0	0	0	0	0	0	0	0	0	0
Cash In	4,690	7,948	7,802	9,350	12,380	8,913	6,969	5,981	6,231	6,548	6,868	11,507
Disbursements of Cash												
Operating Expenses	3,521	4,369	3,792	4,640	5,895	3,725	3,352	3,216	3,419	3,521	3,623	5,827
Accounts Payable	0	0	1,750	2,400	3,300	1,700	1,500	1,350	1,500	1,600	1,700	3,200
Cash Purchase	4,400	1,750	2,400	3,300	1,700	1,500	1,350	1,500	1,600	1,700	3,200	1,800
Short Loans	0	0	0	0	0	0	0	0	0	0	0	0
Current Mtd. Ltd.	116	117	119	120	121	123	124	126	127	129	130	132
Taxes Paid	0	0	0	0	0	0	0	0	0	0	0	0
Other Disbursements	0	0	0	0	0	0	0	0	0	0	0	0
Minus Dep.	215	215	215	215	215	215	215	215	215	215	215	215
Cash Out	7,822	6,021	7,846	10,245	10,801	6,833	6,111	5,977	6,431	6,735	8,438	10,744
Net for Month	(3,132)	1,927	(44)	(895)	1,579	2,080	858	4	(200)	($ 187)	(1,570)	763
Ending Cash	$10,718	$12,645	$12,601	$11,706	$13,285	$15,365	$16,223	$16,227	$16,027	$15,840	$14,270	$15,033

SUPPLEMENTAL INFORMATION

Sample Break-Even Chart



$$\text{Break-Even (Units)} = \frac{\text{Total Fixed Costs}}{\text{Unit Selling Price - Variable Costs Per Unit}}$$

NOTE: Break-Even Dollars = Break-Even Units X Selling Price

UNIT 3: MARKETING

PURPOSE: The purpose of this unit is to present methods for small business market research and for marketing your product or service through a small business.

OBJECTIVE: At the end of this unit, you will be able to draft your own system for researching markets and develop a market plan using the "six essentials" for marketing a product or service.

UNIT 3. MARKETING

As a potential small business owner, it is important to learn all you can about marketing. You will need to know how to identify your market and how to market your product or service.

Identifying the Market

To market successfully, you should know who your future customers will be. Be as specific as you can about your targeted clientele. Are you appealing to a specific age range, economic level, or class of client? Develop a profile of the characteristics of the customers you believe will be most interested in buying your product or service. With these specifics in mind, you can begin your marketing research.

The aim of your research should be to acquire several basic pieces of information about your targeted market area, regardless of whether it is a small neighborhood or several metropolitan areas. It should tell you the population of your market area, present sales volume in your type of business, and provide potential sales volume estimates.[1]

Much information is available to you without charge from organizations and persons in the community. Some sources of information are:

- o Chamber of Commerce
- o Local development board
- o Local planning commission
- o Trade association affiliates
- o Business bureaus
- o College and university business departments
- o Local libraries.

Although market research and advertising firms offer marketing research services at a substantial fee, sometimes they already have prepared special market reports that you can obtain that can be another cost effective source of information.

It also is important to obtain as much information as possible about your competitors. You need to know:

- o The percentage of the total market they have.
- o Whom they are overlooking as potential customers.
- o Whether their pricing is high or low.

- o The percentage of the total market you can project for your business.

- o Any special features about their business that appear to help or hinder them.

You will have to be alert to changing market trends, particularly in an inflationary environment. Is your product or service one that people will eliminate from their budgets if goods and services continue to be increasingly expensive? What are the options and alternatives for your future customers in obtaining your product or service? What could you do to increase the attractiveness of your products or services so that potential or existing customers will be attracted and held by you?

Marketing Your Product or Service

As a new owner of a business, you will need to develop a marketing strategy that includes the following: (1) distribution channels; (2) selecting inventory; (3) pricing; (4) promoting and public relations. Let's look at each of these briefly.[2]

Distribution channels vary with the type of business and the situation. As a manufacturer, wholesalers, retailer, or supplier of services, you are part of a distribution network moving goods or services from producers to consumers. If you have a product to market, for example, should you try to sell it through manufacturer's agents, wholesalers for commerical products, distributors for industrial products, or retailers? What is the best way to get your product to the consumer?

Selecting inventory that will have the maximum appeal for your targeted clientele is a marketing task for the retailer. It involves monitoring the continuing or changing tastes and needs of your customers and buying with them in mind.

Pricing is a crucial part of marketing. You want to cover your costs and make a fair and reasonable profit. Set your prices with that in mind. But remember, your prices can help or hurt you in attracting customers and building sales volume. Some clients favor fixed arrangements, where they pay an agreed upon fee to you, plus reimbursement to you of a range of out of pocket costs you incur. Others prefer to deal on the basis of total price negotiated in advance, with possibly an agreed upon escalator to take into account various levels of inflation. In still other cases, propsective clients can be attracted to a sliding scale approach to pricing where you offer set prices for different volumes of work, or for work done at particular times of day or season. To price accurately, you need to understand the market forces that are operating. Are you pricing at, above, or below market? Can you meet competition and still have enough income to

meet your needs? It also is good business to have a pricing policy on markdowns, sales, and returned merchandise.

Knowing about direct and indirect promotional methods[3] is also important to the small business owner.

Direct methods include advertising, publicity, displays, special event sales, maunfacturer's aids for selling, and personal selling. You might initiate a direct promotion campaign, for example, when you launch your business. You could have an opening day sale with window store posters, flyers on car windshields, opportunities to win prizes, giveaways, and an appropriate advertising campaign.

Indirect methods include public relations, customer relations, customer services, and product styling and packaging. Indirect promotional efforts could be providing customers with delivery or advisory services, stocking spare parts, or adjusting your hours to serve customers better. Remember, satisfied customers not only return themselves, they provide free word-of-mouth promotion for your business.

Indirect promotion involves building an image for your business in the general community. This is known as public relations. Good public relations involves deciding how you want to relate to your community and demonstrating, by involvement in the community, that your business will contribute and provide valuable products or services. Contact business leaders and let them know about your business and your community perspective. They will appreciate your willingness to contribute to a good business atmosphere and probably will be helpful to you in your new venture. Openning and keeping a channel of communication to local press and other media outlets in your area are also advantageous. The feedback you will get from the community can help you keep your business on track and build additional goodwill in the process.

Footnotes

1. Dan Steinhoff, Small Business Management Fundamentals, New York: McGraw-Hill, 1978, pp. 60-67.

2. Adapted from Nicholas C. Siropolis, Small Business Management: A Guide to Entrepreneurship, Boston: Houghton Mifflin, 1977, pp. 332-333.

3. Adapted from Dan Steinhoff, Small Business Management Fundamentals, New York: McGraw-Hill, 1978, pp. 152-159.

SUPPLEMENTAL INFORMATION

The Essentials in Marketing

The six essentials in marketing are:

1. **Product/Service Concept**

    a. Name
    b. Descriptive characteristics

2. **Place/Location**

3. **Pricing Range — Projected or Actual**

    a. Competitive comparison
    b. Brand names of competition
    c. Unit sales or dollar sales on a national basis

4. **People and Direct Sources of Assistance in Marketing**

    a. Distributors/suppliers
    b. Manufacturers
    c. Trade associations
    d. SBA -- SCORE/ACE
    e. Government publications
    f. Trade publications
    g. Reader's Guide to Business Publications

5. **Promotion Options**

    a. Customer profile
    b. Evaluation of customers' needs
    c. Number of customers in sales/services area
    d. Market potential and steps to reach potential customers

6. **Development of a Marketing Plan**

SUPPLEMENTAL INFORMATION

Market Situation Analysis

Use this outline to prepare a market analysis for your proposed business.

1. Product/Service Concept

a. Name of product or service
b. Descriptive characteristics of product or service

(1) Location
(2) Price range
(3) Brand names used
(4) Equipment used
(5) Competitive comparison
(6) Source(s) of supply

c. Unit sales or dollar sales on a nationwide basis
d. Anaylsis of trends

2. Number of Customers in Your Market Area

a. Use of SMSA data to take a profile of customers in your area
b. Average customer expenditure
c. Total market

3. Your Market Potential

a. Total market divided by competition
b. Total market multiplied by percent who will buy your product

4. Needs of Customers

a. Identification -- Newness
b. Individuality -- Freedom
c. Conformity -- Curiosity
d. Pleasure -- Power
e. Social Approval -- Prestige
f. Entertainment -- Success
g. Personal Interest -- Creativeness
h. Affection -- Health
i. Variety -- Adventure
j. Comfort -- Welfare
k. Economy -- Privacy
l. Distinctiveness -- Self-realization
m. Convenience -- Sex Appeal
n. Price

5. **Direct Sources of Assistance in Marketing**

a. Trade magazines
b. Reader's Guide to Business Periodicals
c. Trade associations
d. Manufacturers
e. Distributors
f. Small Business Administration (SBA)
g. Government publications
h. Sales management and marketing magazines
i. Yellow pages
j. Directories

6. **Customer Profile**

a. Geographical (where located)
b. Gender
c. Age range
d. Income brackets
e. Occupation
f. Educational level
g. Wealth (retained purchasing power as opposed to income)
h. Average size of orders
i. Type of outlet patronized
j. Availability and exposure to advertising media

SUPPLEMENTAL INFORMATION

Sample Market Survey

	1975	1976	1977
Population (In Thousands)	325	323	323.1
Median Age	31	31	31.3
Age Group			
18 - 24	12.4%	13.3%	13.7%
25 - 34	14.2	14.5	14.5
35 - 49	17.3	17.1	17.1
50+	27.4	27.3	27.6
Households	105.7	108.3	108.8
Retail Sales	$823,655	$890,903	$943,139
Food	$201,331	$208,650	$223,398
Eating/Drinking	$ 62,389	$ 64,876	$ 71,615
General	$126,897	$134,693	$135,900
Furniture	$ 49,172	$ 52,050	$ 51,529
Automotive	$125,621	$151,021	$170,117
Drug	$ 20,341	$ 22,170	$ 21,954
EBI	$1,896,338	$2,048,709	$2,299,918
Median EBI Per Household	$15,819	$16,822	$18,642
Income Breakdown			
$ 8,000 - 9,999	6.6%	6.0%	5.1%
$10,000 - 14,999	19.2	17.9	15.2
$15,000 - 24,999	34.5	34.7	33.7
$25,000+	18.8	21.8	28.8

SUPPLEMENTAL INFORMATION

An Example of Basic Marketing Research

Computerized Record Keeping Study

The following is an example of the use of marketing data by a small accounting service to evaluate the sales potential of a computerized record keeping system.

Let us say there are 6,000 small businesses in your county. Of this total, 50% can afford $125 per month for accounting services. You feel you can design a system for this market and gain 10% of the market in your county. If there are two competitors for this market, what sales potential (in dollars) can you expect?

1. 6,000 businesses are my potential market, but only 50% can afford the service I plan to offer.

   6000 X 50% = 3000

2. 3,000 businesses can pay $125 per month for my services.

   3000 X 12 (months in one year) X $125 = $4,500,000

3. 10% of this market is my goal.

   $4,500,000 X 0.10 (or ten percent) = $450,000

4. My sales potential is:

   $$\frac{\$450,000}{3} = \$150,000 \text{ per year}$$

This example shows that through the use of basic market research, the accounting firm has the information it needs to make a decision about whether to design a new computerized record keeping system. By comparing the sales potential against the costs of developing and selling the system, the firm can determine if going ahead with the system will be a good decision.

CLASS ACTIVITY

Marketing Research — Customer Analysis

List and rank five characteristics of future customers that you feel will especially influence how you set up and conduct your business. Rank one as the highest (having greatest influence), and five as the lowest (having the least influence of the those you selected).

Characteristic	Rank
1.	____
2.	____
3.	____
4.	____
5.	____

Now, decide which group (i.e., customers sharing a particular characteristic) you will concentrate on first. Have a reason for your selection and for ranking the characteristics in the order that you did.

CLASS ACTIVITY

Marketing Research — Identifying Your Competitors

Who are your competitors? List the principal competitors selling in your market area, estimate their percentage of market penetration and dollar sales in that market, and estimate their potential loss of sales as a result of your entry into the market.

	Name of Competitor and Location	% Share of Market	Estimated Sales	Estimated Sales Competitor Will Lose Because of You
1.				
2.				
3.				

How do you rate your competition? Try to find out the strengths and weaknesses of each competitor. Then write your opinion of each of your principal competitors, their principal products, facilities, marketing characteristics, and new product development or adaptability to changing market conditions.

CLASS ACTIVITY

Marketing Research — Advantages Over Competitors

Below is a list of characteristics that may indicate the advantages your product enjoys over those offered by competitors. Indicate those advantages by placing a check in the proper space. If there is more than one competitor, you will need additional checklists.

Product(s)	Product No. 1	Product No. 2
Price	____	____
Performance	____	____
Durability	____	____
Versatility	____	____
Speed or Accuracy	____	____
Ease of Operation or Use	____	____
Ease of Maintenance or Repair	____	____
Ease of Cost or Installation	____	____
Size or Weight	____	____
Styling or Appearance	____	____
Other Characteristics	____	____
	____	____

HOME ASSIGNMENT

Marketing Research — A Home Project

Clearly define your product or service below.

Name of
Company_____

Estimate Yearly Gross Income_____

Product/Service Definition:

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UNIT 4: SITE LOCATION

PURPOSE: The purpose of this unit is to present methods for evaluating and selecting a site location for your small business.

OBJECTIVE: At the end of this unit, you will have indentified the important factors to consider in site selection and be able to apply these factors when selecting a potential site for your business.

UNIT 4. SITE LOCATION

Finding the right location for your business is crucial to its success or failure. This is particularly true for retail stores that depend on convenient and attractive sites to encourage shopping. Regardless of the business, you will want to have the right amount of space for your purposes. You also will want an area that employees and customers can come to without concern for their safety. Any location is enhanced by its proximity to public transportation and easy parking can make a site more desirable to potential employees or customers.

You can obtain sound statistics on areas you select as possible business locations from the U.S. Census Bureau. The Bureau will provide you with demographic information, including the breakdown of ages and income levels of potential customers. You will want to determine whether the area is growing and, if so, how much growth is projected.

Your Chamber of Commerce, local planning agency, and local transportation department also are excellent sources of information. You will want to make certain that zoning at your prospective site is right for your business and to determine what business taxes will be required. Determine if there are any public or private construction plans that could affect business in a prospective site either postively or negatively.

If you are in retailing, ask yourself if the business environment of potential sites would be right for your target clientele. For example, if you will be selling high-quality, expensive men's clothing, you will probably need store space that is in an attractive, prestigious, expensive location. However, if your merchandise is discounted men's clothing, you should consider transportation to your store in selecting a site. People in search of a bargain will make some effort to find a store location, although proximity to a major highway and to public transportation is a major selling point.

It is wise to spend some time in prospective site locations in order to find out who lives or works in the areas and who passes through them. Would they make good customers? You might interview people on the street, asking them whether they would like to see a business located there. The more effort you put into learning about potential sites and analyzing them in terms of your business, the more successful your selection will be.

If you are thinking of doing things like printing, accounting, crafts, art work, or public relations at home, do a realistic job of estimating your space requirements. Where will you put tools, storage bins, mailing operations, word processing equipment, file cabinets, and display areas -- now and later? How will your family interact with these activities and space requirements? Who will cover the phones or greet customers? Are there young grandchildren or pets about who may not understand why they should keep out of the business areas of the house? Can you have real privacy, if your customer service requires it? Will a phone tied up by your

family give a busy signal to potential customers? Will your business traffic keep family members from phone communication with their friends? Your business at home could make it more attractive for a thief. What steps will you take to diminish the risk of robbery? What are the zoning and licensing laws for your area?

These are not insurmountable problems. However, you should satisfy yourself that you have answers to them before you make a final decision to open up shop at home. A further list of questions can be found in this unit on the Home Assignment, "Starting a Small Home-Operated Business."

SUPPLEMENTAL INFORMATION

What Makes Up the Ideal Location?

Although location is often considered the concern of retail businesses only, it is an important consideration for every type of business. However, the factors that contribute to an ideal location differ for various types of businesses. Answering the following questions can help you select the best location.

Retail and Service Business

- o Retail compatibility -- Is your business located next to businesses that will generate traffic for your store?
- o Is there an adequate number of area residents who fit your customer profile? (That is, what ages, sex, marital status, income brackets, education levels, etc. are representative of the area?)
- o Is the general appearance of the area attractive to your customers? (Is it clean, well lighted? Do most stores seem properous and stable?)
- o Is there adequate display, office, and showroom space?
- o Is parking adequate?
- o Is street traffic fairly heavy most of the day?
- o Is the area served by public transportation?
- o Is the location easily accessible and easy to find?
- o If you choose a remote location to reduce overhead, how will you be able to attract customers (e.g., unique items, low price, etc.)?
- o Is police and fire protection adequate?
- o What are the insurance ratings for the area?
- o Is the physical facility in good condition?
- o Does it reflect your "image"?
- o If you provide pick up and delivery, does your location minimize travel time?

Manufacturing Business

- o Is the plant centrally located to reach your market?
- o What is the nearby competitive situation?
- o Is there an adequate supply of suitable labor available?
- o Is the necessary air, rail, water, and highway transportation readily available and at reasonable rates?
- o Is the delivery time acceptable to your major customers?
- o Are raw materials or merchandise readily available?
- o Is the physical facility suitable? Is there potential for expansion?
- o Is the attitude of the community favorable to your type of plant?

General Consideration for All Types of Businesses

- o Zoning and planning -- Are there restrictions that might limit your operation?
- o Are any major changes planned for the area (e.g., new highways, rezoning, etc.)?
- o Are adequate utilities (sewer, water, power) and communication available?
- o Can the site be equipped for any special needs that you have?
- o Are all conditions of the lease acceptable and clearly understood?
- o How has the leasor dealt with previous businesses?
- o Is leasing preferable to purchasing a site?
- o Is suitable labor available and the general wage scale reasonable?
- o What is the relative taxation burden?

HOME ASSIGNMENT

Investigating Two Sites for Your Potential Small Business

The purpose of this assignment is to give you practical experience in locating a site for your business. You are to investigate two possible sites. Write the answers to the questions below to help you evaluate the sites. When you have completed this, use the scoring sheet to score each site. This home assignment can be shared in class.

Site Evaluation Questions

What are the strengths?

Site #1 Site #2

What is the cost per square foot?

Site #1 Site #2

What are the lease/purchase options?

Site #1 Site #2

What is the distance from potential customers?

Site #1 Site #2

Is there access for delivery of supplies?

Site #1 Site #2

____yes ____no ___yes ___no

Explain: Explain:

What is the distance of the site from home?

Site #1 Site #2

What is the cost and availability of support services (parking, janitorial, etc.)?

Site #1 Site #2

What is the predicted growth potential?

Site #1 Site #2

What are the drawbacks?

Site #1 Site #2

HOME ASSIGNMENT

Investigating Sites for Your Potential Small Business

Score Sheet on Site Location #1

Grade each factor: "A" for excellent; "B" for good; "C" for fair; "D" for poor.

Factor	Grade
1. Centrally located to reach my market.	_____
2. Merchandise or raw materials available.	_____
3. Nearby competition situation.	_____
4. Transportation availability and rates.	_____
5. Quantity of available employees.	_____
6. Parking facilities.	_____
7. Adequacy of utilities (sewer, water, power, gas).	_____
8. Traffic flow.	_____
9. Taxation burden.	_____
10. Quality of police and fire protection.	_____
11. Environmental factors (schools, cultural and community activities, enterprise of other business owners).	_____
12. Physical suitability of the building.	_____
13. Provision for future expansion.	_____
14. Overall estimate of quality of site in 10 years.	_____

Score Sheet on Site Location #2

Grade each factor: "A" for excellent; "B" for good; "C" for fair; "D" for poor.

Factor	Grade
1. Centrally located to reach my market.	_____
2. Merchandise or raw materials available.	_____
3. Nearby competition situation.	_____
4. Transportation availability and rates.	_____
5. Quantity of available employees.	_____
6. Parking facilities.	_____
7. Adequacy of utilities (sewer, water, power, gas).	_____
8. Traffic flow.	_____
9. Taxation burden.	_____
10. Quality of police and fire protection.	_____
11. Environmental factors (schools, cultural and community activities, enterprise of other business owners).	_____
12. Physical suitability of the building.	_____
13. Provision for future expansion.	_____
14. Overall estimate of quality of site in 10 years.	_____

Adapted from U.S. Small Business Administration publication SBMA No. 201, Locating or Relocating Your Business.

HOME ASSIGNMENT

Starting a Small Home-Operated Business

Outline

1. List possible skills, hobbies, or talents that might be marketed from your home.

2. How much time can you devote per week, month, season, year to this business?

   To determine this, begin by drafting a weekly task timetable that lists all current and potential responsibilities and time required for each. When and how can business responsibilties be added without undue physical or mental stress on you and your family?

3. List why you prefer to work at home.

4. What changes in personal habits would be required for you to operate a home business?

   Examples:
   - o Self-discipline to keep TV off while working.
   - o Learn to limit personal phone calls in length and number.

5. Where in the home will you locate your business?

   What adjustments to living arrangements will be required? Cost of changes? What equipment will be needed? What are the costs and availability? Do zoning and licensing laws permit you to operate from your home?

6. Who will be involved in the business operation?

   Do you want to be your own boss? What tasks will each person involved perform? When? How are employees going to be compensated? Make up a separate chart of responsibilities for each potential employee.

7. List all possible drawbacks or obstacles to operating this business at home. Ask family members to comment on pros and cons.

8. Interview successful home-based entrepreneurs and ask each the above questions. Compare their answers to yours.

9. Share your findings with other class members interested in at-home work environments.

10. After in-class discussion, re-evaluate your work environment plan to adjust for new insights/findings.

HOME ASSIGNMENT

Starting a Small Home-Operated Business

Work Environments At Home

List possible skills, hobbies, or talents that might be marketed from home.

HOME ASSIGNMENT

Starting a Small Home-Operated Business

Work Environments At Home

List all the daily responsibilities you presently have at home.

Responsibilities	Monday	Tuesday	Wednesday	Thursday	Friday

Responsibilities on weekends:

HOME ASSIGNMENT

Starting a Small Home-Operated Business

Advantages/Disadvantages to a Home-Operated Business

List all possible advantages and disadvantages to operating this business at home.

Advantages	Disadvantages

UNIT 5: ADVERTISING

PURPOSE: The purpose of this unit is to provide guidelines to use when advertising your small business.

OBJECTIVE: At the end of this unit, you will be able to develop an advertising budget and be able to weigh the advantages and disadvantages of different types of media so your advertising and personal selling techniques will be cost effective and profitable.

UNIT 5. ADVERTISING

You might have the best product or service in your field, but unless people know about it, your business will not succeed. To advertise is to call attention to yourself. As a small business owner with limited resources, you will want to make sure your advertising dollar is effectively spent.

When planning your advertising campaign, you should assess your business by determining who your customers will be and what you have to offer. Your ad campaign should be based on a clear understanding of your business and its image. Ask yourself these basic questions:

- o What need am I meeting?
- o Who, specifically, will my customers be?
- o What are their tastes?
- o How can I best attract them to my business?
- o Which income level am I aiming for?
- o Why will people want to do business with me?
- o How do my products or services compare with those of my competitors?
- o What special customer services do I offer that I can advertise?
- o What image do I want my business to project?

You will want to think more about the lifestyles and needs of your targeted clientele. To what kinds of media are they exposed? To what types of advertising will they respond? In doing business with you, will they be looking primarily for bargains, status, or convenience? What kinds of shoppers, homeowners, or businesses are currently in your community? Knowing as much as possible about the preferences of your potential customers will help you to better judge what products or services they need. This knowledge can help you decide what aspects of your service or product business to emphasize, in which media, and when.

Most small business owners prefer direct-action advertising that is designed to bring in customers to buy a specific item or service rather than institutional advertising that promotes the firm in a general way. When you are advertising a specific event or sales item, you also are clearly promoting your entire business. You may prefer to try both types, however, and see which seems to bring the best response.

Advertising media include:

- o Newspapers
- o Television (national and local)
- o Radio (national and local)
- o Direct mail
- o Billboards
- o Handbills
- o Signs
- o Yellow pages section of the telephone directory
- o Word-of-mouth by satisfied customers
- o Friends, associates in fraternal and civic organizations, members of your church or synagogue.

Many of these forms of advertising reach large and usually general audiences. Direct mail allows you to tailor your ads to your best prospective customers. Handbills and signs enable you to alert people in the vicinity of your business presence. Sometimes a small business owner in a busy downtown area will hire an individual to walk around the neighborhood wearing a sandwich board (boards with advertising copy joined by straps or chains over the shoulders).

Costs of the different media vary widely and you will have to choose which media are best based on your clearly defined target audience and your advertising budget. Establish a dollar amount of your sales revenue as your advertising budget. Your initial advertising campaign also should be budgeted. For example, if advertising in the major city newspapers regularly is too expensive, consider placing ads in smaller neighborhood or suburban community papers.

When to advertise is important. You might find that one ad in the Sunday paper will bring you more customers than several ads placed during the week -- or just the opposite. Here again, you have to assess your community and their habits of responding to advertising. You should experiment to determine what advertising schedule is most effective. Advertising is one of the primary sales vehicles for your business. Use your ingenuity!

As a learning exercise, you might want to design an advertising campaign for your projected business. Be sure you tie the focus of your campaign into your marketing objectives, including target clientele. In designing your campaign:

- o Determine which media you will use and when.
- o Determine your budget and how you will allocate it among the media you choose.

- Call the local papers, telephone company, and others to find out the various advertising rates available for sample ads.

- Consider developing an advertising calendar for your business to help you take advantage of change-of-season and holiday sales potential.

Finally, do not forget the boost you can get from your supplier and from other business people when they are asked, "Do you know where I can get (a product)?" Or, "Do you know who does a good job (in providing a service)?" If you satisfy your customers, people in other businesses will be happy to refer potential customers to you, and satisfied customers not only come back, they tell others. The effects of that grapevine will spread quickly in your community and possibly beyond.

UNIT 6: FINANCIAL MANAGEMENT

PURPOSE: The purpose of this unit is to present the fundamentals of financial management.

OBJECTIVE: At the end of this unit, you will be able to name the basic elements of an accounting system and analyze financial statements as a guide for financial management. You will be able to prepare a cash budget for your first year of business and develop a resume to use when seeking sources of financing.

UNIT 6. FINANCIAL MANAGEMENT

Financial management is the process of analyzing and monitoring the financial performance of your business so you can assess your current position and anticipate future problem areas. The daily, monthly, seasonal, and yearly operation of your business requires attention to the figures that tell you about the firm's financial health.

As a financial manager, you will rely on data from accounting procedures that are absolutely essential for both long-range and short-range planning. Consistent use of financial data yielded by your accounting system allows you to:

- o Keep close tabs on the performance of your business.
- o Spot trends.
- o Plan ahead.
- o Take corrective action if necessary.

You need to know about several types of accounting records:[1]

- o Cash records showing receipts and disbursements.
- o Inventory records.
- o Payroll records.
- o Insurance, leasing, and investment records.

Although you may need only a simple accounting system, it should do at least the following:

- o Give you an accurate, complete picture of your operation.
- o Provide you with the basic financial statements you need for taxes, reports, and loan applications.
- o Help you spot employee fraud, waste, and bookkeeping errors.

No matter how simple your business is or seems to be, you should have an accountant to tailor an accounting system to your specific needs.

The three most important accounting tools for the small buinsess owner are: the income statement, the balance sheet, and the cash-flow forecast. The income statement indicates the bottom-line profit figure for a given period, often a year. For a service-oriented business, the income statement might look like this:

Gross sales revenues	$100,000	For year ending
Operating expenses	70,000	December 31, 1983.
Gross profit	30,000	
Debt service	15,000	
Net pre-tax profit	$ 15,000	

For a retail firm, the cost of goods sold also must be subtracted from total sales revenues, as this example shows:

Gross sales revenues	$100,000	For year ending
Cost of goods sold	50,000	December 31, 1983.
Gross profit	50,000	
Operating expenses	20,000	
Profit before debt service	30,000	
Debt service	15,000	
Net pre-tax profit	$ 15,000	

The balance sheet captures a business at one specific point in time rather than over a given time period. The balance sheet displays the total worth of the business, its assets on one side of the page, and the liabilities and owners' equities on the other side. A better way to say this is that the right side -- the equities -- of the balance sheet show how the entrepreneur financed the venture; the left side -- assets -- show how the owners invested the money they obtained. (See the sample balance sheet in this unit.)

Neither the income statement nor the balance sheet will tell you about the amount of cash you can expect to have on hand in the short run to pay bills. This is the role of the cash-flow forecast. The crux of the cash-flow issue is the time lag between collecting accounts receivable (money that is owed to the business; for example, from credit card sales) and paying accounts payable (what the business owes its suppliers in the short-term). The forecast will let you know how much cash is available to you.

One important financial management tool that the new entrepreneur should know about is the break-even chart. This chart attempts to pinpoint

the exact figure at which the business is breaking even. (A sample break-even chart is included in Unit 2). Everything above the break-even figure is profit, and anything below that figure is loss. Note that fixed and variable costs are allocated separately and summed to obtain total costs. The total costs are matched against total sales revenues for the same period. To obtain the break-even point in dollars, use this formula:

$$\text{Break-Even (Units)} = \frac{\text{Total Fixed Costs}}{\text{Unit Selling Price - Variable Costs Per Unit}}$$

NOTE: Break-Even Dollars = Break-Even Units X Selling Price

Costs that are not clearly either fixed or variable should be assigned arbitrarily to one category or the other. Reducing fixed costs by a dollar has considerably more impact on the break-even point -- lowering it more -- than reducing variable costs by a dollar.[2]

The break-even chart usually is used at the end of an accounting period to determine the point at which a given firm will begin to earn a profit. The chart also can be used at any time to determine the effect on profits that any increase or decrease of sales might have.

The SBA's management aid pamphlet on the break-even analysis (Small Marketers Aids No. 166) outlines some basic uses for the tool:[3]

1. The break-even analysis is a cheap screening device. Discounted cash flow techniques require large amounts of expensive-to-get data. Break-even can tell you whether or not it is worthwhile to do more intensive (and costly) analysis.

2. The break-even analysis provides a handle for designing product specifications. Each design has implications for cost. Costs affect price and marketing feasibility. Break-even permits comparison of possible designs before the specifications are frozen.

3. The break-even analysis serves as a substitute for estimating an unknown factor in making project decisions. In deciding whether or not to go ahead on the project, there are always variables to be considered, for example, demand, costs, price, and miscellaneous factors. When most expenses can be determined, only two missing variables remain, profit (or cash-flow) and demand.

Demand is usually tougher to estimate. By deciding that profit must at least be zero (the break-even point), you can then find fairly simply the demand you must have to make the project a reasonable undertaking.

Ratio Analysis

Several forms of ratio analysis will help you determine your firm's profitability, but the most commonly used are:

- o Current ratio.
- o Acid test ratio.
- o Proprietorship ratio.
- o Net profit-net sales ratio.

The current ratio is your current assets divided by your current liabilities, and should be equal to a least 2; that is, your current assets (those that you could convert to cash, whether quickly or slowly) should be double your liabilities. The acid test ratio is the value of assets that can be quickly converted to cash (such as accounts receivable) divided by your current liaibilities. Financial experts say this ratio should be at least 1. The proprietorship ratio is the value of your personal investment in your business divided by the total assets of your business; ideally it should by at least 0.50 -- that is, you should own at least half of the assets of your own business. The ratio of net profit to net sales is your profit after taxes divided by your net sales (net sales include money collected and money due). If you multiply this ratio by 100, you will get the percentage of profit.

A sample balance sheet and a profit-and-loss statement are included in this unit. In addition, the derivation of some common business terms such as current ratio, quick ratio, and rate of return is shown in the brief vocabulary list.

Should You Use a Computer?

You may not need a computer. If you can obtain all the information you need easily without a computer, you may be better off. However, if you need to use data several ways, process data extensively, or make long file searches, you might want a computer to speed up these processes.[4] If you need a computer, investigate various options in addition to buying one. Computer service bureaus are a possibility. They sell completed programs and computer time. Obtaining a tailored program from a service bureau, however, can prove costly and difficult.

Time-share terminals, too, are available from companies that sell existing programs and computer time. With the time-share system you can do your own programming and make entries on a terminal that can either be leased or bought. Thereafter, you pay only for access to the computer. Time-sharing may be a good solution for you if your business involves repetitive calculations. If your calculations do not require the power of a large-scale computer, however, you might find that a microcomputer or a calculator that can be programmed will meet your needs.

Accounting and the tools of financial management are of utmost importance to the survival of a small business in the modern economy. However, they have limitations:

- o They cannot measure the true worth of a business.
- o They can only report its paper value.
- o Abstract but important variables such as teamwork, morale, and the owner's health are not included in accounting records.

Thus, the figures yielded by accounting procedures provide an imperfect but essential picture of the financial management aspect of a business.

Footnotes

1. Adapted from H. N. Broom and Justin G. Longenecker, Small Business Management, Cincinnati, Ohio: South-Western Publishing, 1979, and from Nicholas C. Siropolis, Small Business Management: A Guide to Entrepreneurship, Boston: Houghton Mifflin, 1977.

2. Common Sense, Volume 2, Number 1, 1979.

3. In addition to the management aid quoted here in the text, the agency also has published four other booklets related to this unit's topic that might be helpful to the small business entrepreneur. See "Accounting Services for Small Service Firms," SMA/126; "Simple Breakeven Analysis for Small Stores," SMA/166; "Analyze Your Records to Reduce Cost," SMA/130; and "Checklist for Profit Watching," SMA/165.

4. Howard H. Stern, Running Your Own Business, New York: Ward Ritchie, 1976, pp. 168-169.

SUPPLEMENTAL INFORMATION

Key Ratios

The following are definitions of key ratios used to evaluate the financial position of a business.

Vocabulary

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liability}}$

Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liability}}$

Debt Ratio = $\frac{\text{Long-Term Liability}}{\text{Total Assets}}$

Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Sales}}$

Net Profit Margin = $\frac{\text{Net Profit}}{\text{Sales}}$

Rate of Return = $\frac{\text{Net Profit}}{\text{Net Worth}}$

Inventory Turnover = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

SUPPLEMENTAL INFORMATION

Business Records

The following questions will help you to understand the need for the various types of records a business might use.

1. How much business am I doing?
2. What are my expenses? Which expenses appear to be too high?
3. What is my gross profit margin? My net profit?
4. How much am I collecting on my charge business?
5. What is the condition of my working capital?
6. How much cash do I have on hand and in the bank?
7. How much do I owe my suppliers?
8. What is my net worth; that is, what is the value of my ownership of the business?
9. What are the trends in my receipts, expenses, profits, and net worth?
10. Is my finanical position improving or growing worse?
11. How do my assets compare with what I owe? What is the percentage of return on my investment?
12. How many cents out of each dollar of sales are net profit?

These and other questions may be answered by preparing and studying balance sheets and profit-and-loss statements. To prepare these fundamental statements, you need to record information about transactions as they occur. By keeping this informaiton in an orderly fashion and in sufficient detail, you can answer other vital questions about your business such as: What products or services do my customers like best, next best, and so on? Do I have the right merchandise in stock to give them what they want? Am I prepared to render the services they demand most? How many of my customers are slow in paying their bills?

What kinds of records and how many you need depend upon your particular operation. For example, a carrier selling newspapers part-time each day does not need inventory records. Carriers buy and sell their entire stock

each day. But a shoe store or a dress shop operator will soon find that heor she cannot keep the needed inventory information by memory alone. Below is a list of records, grouped according to their use. None will be needed by all businesses. You may need only a few of them. As a matter of fact, you should not maintain a record without answering the questions: (1) How will this record be used?; (2) How important is the information likely to be?; and (3) Is the information available elsewhere in an equally accessible form? Here is a check list which may call your attention to some records you could use to great advantage.

Cash Records

These records show what is happening to cash.

- o Daily Cash Reconciliation
- o Cash Receipts Journal
- o Cash Disbursements Journal
- o Bank Reconciliation

Inventory and Purchasing

These records provide facts to help with buying and selling.

- o Inventory Control Record
- o Item Perpetual Inventory Record
- o Model Stock Plan
- o Out-of-Stock Plan
- o Open-to-Buy Record
- o Purchase Order File
- o Open Purchase Order File
- o Supplier File
- o Returned Goods File
- o Price Change Book
- o Account Payable Ledger

Sales Record

These records reveal facts to determine sales trends.

- o Record of Individual Sales Transactions
- o Summary of Daily Sales
- o Sales Plan
- o Sales Promotion Plan

Credit

These records keep track of who owes you and whether they are paying on time.

- o Charge Account Applications
- o Accounts Receivable Ledger
- o Accounts Receivable Aging List

Employees

These records maintain information legally required and are helpful in the efficient management of personnel.

- o Record of Employee Earnings and Amounts Withheld
- o Employee Withholding Exemption Certificate (Form W-4)
- o Record of Hours Worked
- o Record of Expense Allowances
- o Employment Applications
- o Record of Changes in Rate of Pay
- o Record of Reasons for Termination of Employment
- o Record of Employee Benefits
- o Job Descriptions
- o Crucial Incidents Record

Fixtures and Property

These records keep facts needed for taking depreciation allowances and for insurance coverage and claims.

- o Equipment Record
- o Insurance Register

Bookkeeping

These records, in addition to some of the others above, are needed if you use a double-entry bookkeeping system.

- o General Journal
- o General Ledger

For efficient operation, you need information from records to keep stock in line with sales, to watch trends, and for tax purposes. Furthermore, you should use records to plan. With a well thought-out business plan as a guide, you strengthen your chances for success. A record to show the statistics of your business plan is the budget. Working up a budget helps you to determine just how much increase in profit is reasonably within reach. The budget will answer such questions as: What sales will be needed to achieve my desired profit? What fixed expenses will be necessary to support these sales? What variable expenses will be incurred?

A budget enables you to set a goal and determine what to do in order to reach it. Of course, your budget should be compared periodically with actual operations. With effective records you can do this. Then, where discrepancies show up corrective action may be taken before it is too late. The right decision for the right corrective action will depend upon your knowledge of managemnt techniques in buying, pricing, selling, selecting and training personnel, and handling other management problems.

SUPPLEMENTAL INFORMATION

Profit & Loss Statement

December 31, 19__

	Dollars		Percent
Net Sales			%
Cost of goods sold			%
Gross Profit on sales	$		%
Expenses			
Wages	$		%
Delivery expense			%
Bad debts allowance			%
Communications			%
Depreciation allowance			%
Insurance			%
Taxes			%
Advertising			%
Interest			%
Other charges			%
Total expenses		$	%
Net profit		$	%
Other income			%
Total Net Income		$	%

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

SUPPLEMENTAL INFORMATION

Profit & Loss Statement

December 31, 19__

	Dollars		Percent
Net sales	$ 68,116		100.0
Cost of goods sold	47,696		70.0
Gross Profit on sales	$ 20,420		30.0
Expenses			
Wages	$ 6,948		10.2
Delivery expense	954		1.4
Bad debts allowance	409		0.6
Communications	204		0.3
Depreciation allowance	409		0.6
Insurance	613		0.9
Taxes	1,021		1.5
Advertising	1,566		2.3
Interest	409		0.6
Other charges	749		1.1
Total expenses		$ 13,282	19.5
Net profit		$ 7,138	10.5
Other income		886	1.3
Total Net Income		$ 8,024	

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

SUPPLEMENTAL INFORMATION

Balance Sheet as of 12/31 19 83

FOR: ABC Company

Cash	$	Notes payable, bank	$
Accounts receivable		Accounts payable	
Inventory		Accruals	
Total current assets	$	Total current liabilities	$
Equipment and fixtures		Total liabilities	$
Prepaid expenses		Net worth	
Total assets	$	Total liabilities and net worth	$

Cash	$ 1,896	Notes payable, bank	$ 2,000
Accounts receivable	1,456	Accounts payable	2,240
Inventory	6,822	Accruals	940
Total current assets	$ 10,174	Total current liabilities	$ 5,180
Equipment and fixtures	1,168	Total liabilities	$ 5,180
Prepaid expenses	1,278	Net worth	7,440
Total assets	$ 12,620	Total liabilities and net worth	$ 12,620

Source: Ratio Analysis for Small Business, U.S. Small Business Administration, Small Business Management Series Number 20.

CLASS ACTIVITY

Case Problem

The following data were taken from the financial statements of the Coit Corporation for the calendar year 1981.

1. Figure the ratios for Coit.
2. What possible management problems are indicated?

Coit Corporation Balance Sheet - December 31, 1981

Cash	$ 55,000	Accounts payable	$ 40,000
Receivables	70,000	Notes payable	55,000
Inventory	200,000	Other current liability	25,000
	$ 325,000	Total current liability	$ 120,000
Net fixed assets	$ 150,000	Long-term debt	$ 55,000
		Net worth	300,000
Total assets	$ 475,000	**Liability and owner's equity**	$ 475,000

Coit Corporation Income Statement - December 31, 1981

Sales	$ 690,000	
C/G/S	505,000	
Gross profit	$ 185,000	$185,000
Selling expenses	$ 70,000	
Other expenses	80,000	
	$ 150,000	$150,000
Operating profit		$ 35,000
Less interest		6,050
Net profit before taxes		28,950
Taxes		14,475
Net profit		$ 14,475

CLASS ACTIVITY SHEET

Case Problem — Cash Budget

The following is a case problem in preparing a cash budget. Read over the case and answer the three questions that follow.

A Need for a Cushion

Each semester, Dick Taggart's Small Business Class is broken up into teams. Each team is assigned a local business. Its job is to go into the business and study the firm's operations as well as any problems it might be having. The students work with the owner-manager, ask discerning questions, and try to help solve the firm's problems.

One of Dick's teams have been working with a small manufacturing firm. The manufacturer has consistently had a cash flow problem. It seems that the business is always running out of cash except during its big months of February through May. However, the students had been unable to get a reply from the owner in response to their questions about his cash budget. Apparently he does not have one.

Based on the accounting records that the team was able to find, the owner's inflows and outflows of cash for the first fiscal year are as follows:

Month	Inflows	Outflows
January	$ 8,000	$10,000
February	15,000	11,000
March	20,000	12,000
April	22,000	12,500
May	25,000	13,000
June	15,000	12,000
July	10,000	11,000
August	11,000	11,000
September	9,000	10,000
October	8,000	10,000
November	5,000	9,000
December	7,000	10,000

The financial records also show that the owner needs to have a $5,000 cushion because all bills are paid at the beginning of the month, but inflows tend to come in closer to the end of the month. Thus there are fluctuations throughout the month that are not reflected in the above inflows and outflows.

1. What is net inflow (or outflow) of cash on a monthly basis for this firm? What is the cumulative net cash balance, assuming that the owner started the year with $1,000 in cash?

2. Draw up a cash budget for the owner using the data in this case and allowing for a minimum $5,000 cash balance at all times. Based on your data, does the owner need to consider borrowing money from the bank?

3. Drawing on the cash budget you constructed in answer to the previous question, what recommendations would you make to the owner? Be explicit in your answer.

CLASS ACTIVITY

Case Problem — A Need for a Cushion — ANSWER

1. The net inflow or outflow of cash on a monthly basis for this firm, and the cumulative cash balance are the following:

Net Inflow Per Month	Cumulative Balance (starting with $1,000)
- $ 2,000	- $ 1,000
4,000	3,000
8,000	11,000
9,500	20,500
12,000	32,500
3,000	35,500
- 1,000	34,500
0	34,500
- 1,000	33,500
- 2,000	31,500
- 4,000	27,500
- 3,000	24,500

2. After the students draw up the cash budget allowing for a minimum of $5,000 cash balance at all times, they are going to find that the company needs to borrow $6,000 for the month of January, but can pay off the entire loan by March.

3. Drawing on this cash budget, the owner needs to obtain a small loan from the bank right now.

Source: R. Hodgett and P. Keel, "Preparing a Cash Budget Case Study," Topics in Small Business Management, (Kendall-Hunt Publishing Company), 1980.

SUPPLEMENTAL INFORMATION

The Microcomputer and Your Small Business

Microcomputers have been available to persons in small business for approximately five years. Most microcomputer systems with capabilities to serve small businesses have at least for or five standard programs. The programs, commonly known as "software," include:

1. Word processing.

2. Storage of facts and/or figures in a data base with methods for sorting and searching the data base.

3. Bookkeeping packages with capabilities for payroll, general ledger, accounts receivable, and accounts payable.

4. Business mailing lists, such as a program for doing a market search or for keeping a list of regular or potential customers.

5. The capability to compute W-2 Forms for income tax purposes.

Using a microcomputer can help you with your own business, but it also can provide services to others. For example, if you have a bookkeeping package, you can market the bookkeeping service to other business owners.

The following example shows how a microcomputer can be a time-saving device in a small business. A payroll clerk took all week to do the payroll "by hand" for X Company's 150 employees. Using a microcomputer, that same clerk completed the payroll in approximately four hours. Since payroll generates no income yet is a necessity in a business with one or more employees, a computer can be a good way to make the job easy and much less time consuming.

As in everything else you do when starting a small business, you should investigate thoroughly your need for a computer before deciding to buy one. When looking for a computer and deciding what you want the computer to do for you, think about the following questions:

- How do I want to use a computer in my business:

  --What data must I get from the computer to run my business and save time and money?

  --What form should data be in to use it effectively?

--How much storage capacity do I need?

—What is it going to take to input my data?

- o What are the required and preferred features of the computer to get the results I need?
- o How much money do I want to spend for a system?
- o What software package(s) should I invest in for my small business?
- o What type of microcomputer do I want to buy, lease, or use to provide the services I need?

Trade journals, periodicals, and the yellow pages can supply you with the names of microcomputer firms. Contact several firms. Make an appointment to have a demonstration and get the information you need first-hand. Describe to the salesperson the business you plan to start. Do not make any decisions until you have had all questions answered to your satisfaction. Generally, you will get enough information to help you decide if you should invest in a microcomputer. If there is a convention having a computer show nearby, take some time to view the exhibits and to talk with sales representatives.

UNIT 7: MANAGEMENT

PURPOSE: The purpose of this unit is to present the management skills needed to operate your small business successfully.

OBJECTIVE: At the end of this unit, you will understand the planning skills, decision making skills, and human relations skills necessary to be an effective manager in small business.

UNIT 7. MANAGEMENT

Managing people, time, and resources effectively will be an important part of your work as a small business owner.

Managing People

Let's look at the human relations part of management first. Establishing good working relationships with partners, employees, suppliers, and advisors is essential to harmony in any organization, regardless of size. Human relations means treating the other person with respect and dignity. If you are overbearing, the chances are that few people will extend themselves to help you develop your business and fewer still will want to work for you any length of time.

If you have a partner, his or her skills should complement yours. Thus, each of you will be able to handle segments of the business, using your strengths to their maximum effectiveness. (In the interest of "effective management," both partners should know how to run the business well, with each functioning in that part of the business in which he or she has expertise.)

Before you hire anyone, you and your partners or co-owners should assess your personnel needs. You should be able to communicate clearly to the applicants the roles you have in mind and how they will fit into the organization.

As a small business owner, you must make a conscious effort to spend time orienting and motivating employees. When employees have good morale and are highly motivated, they do not have to be supervised as closely as when they are just putting in time for a paycheck. The traditional view of the worker as a drone who must continually be primed to produce is contrary to more recent management styles that not only assign responsibilities to employees, but allow them spontaneity in creating their jobs. Motivating workers involves creating in them an interest in and an excitement for the task at hand and offering such rewards as a sense of accomplishment and opportunities for growth, as well as financial incentives.

Your management style should allow your employees the freedom to do their own work and should give them the opportunity to make suggestions and to communicate their feelings about their work to you. Employees are one of the most important resources of a business. Productive, courteous, pleased employees attract business, keep customers satisfied enough to return, and spread word of your business to others.

A good worker wants to be recognized as such -- both verbally and in concrete terms like good pay and benefits. Yet, there are ways that you can both satisfy your employees and save time and money. For example, if you hire older people, many of whom are retired, your own health insurance

plan and those of your employees can, in many instances, be structured with Medicare as a base. This reduces the cost of health care to the business. You also may receive tax credits for hiring older workers.

Managing Time

Time is a first consideration when managing your business. Maximizing the use of your time and your employees' time is an important way to keep on top of your business. Effective use of time also provides opportunities for you and your workers to do the things that each of you does best. Nine valuable steps to good time management follow:

1. Set goals and objectives.

2. List the tasks (jobs) to be performed.

3. Rank tasks in order of importance. Determine priorities. Set a time "price tag" on each.

4. Divide tasks into groups based on:

   a. staff skills (competencies demonstrated)

   b. ability of entrepreneur to control amount of time and cost required to perform tasks.

5. Delegate tasks to staff members based on priorities and/or plan which tasks must be contracted out to other firms or individuals. Do not switch persons and tasks in "midstream." Assign tasks in a meeting so the staff can get the total picture of what has to be accomplished and in what time frames.

6. Ask staff for suggestions on time-saving methods for doing a task.

7. List options for time conservation, e.g., purchase of computerized inventory control system vs. personnel time to do manual counts of stock.

8. Build in feedback and other reward systems for work accomplished ahead of time, work done to meet a specific time schedule, etc.

9. Develop a regular schedule for planning and updating the time management schedule. Let staff in on the assessment when changes are made.

Solving Problems

One way to solve problems and also manage time is "management by exception." This requires that you do the following:

1. Identify the tasks of the firm.
2. Assign them to yourself and your employees.
3. Establish an agreement between you and your employees about how the tasks are expected to be performed.[1]

This method helps employees to be aware of what should be done when unanticipated situations arise in the day-to-day functioning of the business. An employee only has to seek you out when some unanticipated situation or problem occurs. This way, real problems get the manager's attention, and everyone's time is maximized to his or her benefit and to the benefit of the firm.

Steps for problem solving when managing a small business are:[2]

1. Recognize and define the problem or problems to be solved.
2. Determine the boundaries and limits of the problem.
3. Determine the cause of the problem and the objectives of any possible solution.
4. Ask yourself which of these objectives are "musts" and which are "wants."
5. Then, and only then, develop and compare other alternatives with the stated solutions.
6. Choose one of the alternative solutions and assess its potentially adverse consequences.
7. Select and assess another solution if the choice you made is too unpalatable or cannot be controlled.

Decision Making

In managing your business, you should have a systematic approach to decision making. Consistently good decision making is based on the best information available, and getting that information takes planning.

You can organize your need for information in a few steps:

1. Oultine the 10 most important decisions you have to make in the next 12 months.
2. List the activities that need monitoring.
3. Collect accurate data on those activities.
4. Organize and use the data.

The information flow that results is really another type of management by exception. By this process, what is out of the ordinary will stand out. Your decisions, then, will be made in light of your own standards and the most up-to-date information.[3]

To be skillful in all these management techniques requires practicing, testing, trying, and finally arriving at the best "style" for you to manage your business.

Footnotes

1. Common Sense, Volume 1, Number 12, 1978, p. 5.
2. Common Sense, Volume 3, Number 5, 1980, p. 7.
3. Adapted from Common Sense, Volume 3, Number 9, 1980, p. 1.

SUPPLEMENTAL INFORMATION

Characteristics of Effective Executives/Managers

Following are names of influencial management theorists and what they believe makes an effective manager.

DRUCKER

1. Records where the time goes.
2. Focuses vision on contribution.
3. Makes strengths productive.
4. Manifests character: foresight, self-reliance, courage.
5. Makes effective decisions.

WRAPP

1. Keeps informed.
2. Controls energy and time for particular decisions, problems, and issues.
3. Has a sense of timing -- is sensitive to organization's power structure and moves through the corridors of competitive indifference.
4. Gives direction to the organization with unwritten and undisclosed objectives and policies.
5. Willing to take less than total acceptance to achieve modest progress.

ARGYRIS

1. Exhibits high frustration tolerance.
2. Encourages full participation.
3. Questions continually himself/herself.
4. Understands "laws of competitive warfare."
5. Expresses hostility tactfully.
6. Accepts victory with controlled emotions.
7. Defeat never shatters him/her.
8. Understands necessity for limits and unfavorable decisions.
9. Identifies self with groups.
10. Sets goals realistically.

BROWN

1. Avoids "all or nothing at all" complex.
2. Avoids acting from expediency.
3. Avoids an obsession to win.
4. Avoids the concept of black and white.
5. Has a sense of proportion.
6. Is impersonal (yet personable).
7. Expects people to be logical.

MASLOW

1. Preceives reality and is comfortable therein.
2. Accepts self, others, and nature.
3. Is spontaneous.
4. Is problem-centered.
5. Is detached and requires privacy.
6. Is independent of culture and environment.
7. Has a continued fresh approach.
8. Trusts intuition.
9. Has the flavor for the feelings of mankind (genuine desire to help the human race).
10. Has deep and profound interpersonal relationships.
11. Has a democratic character structure.
12. Behaves as though means and ends are clearly distinguishable.
13. Has an unhostile sense of humor.
14. Is creative.

SUPPLEMENTAL INFORMATION

The Art of Listening Well

A zoologist was walking down a busy street with a friend. In the midst of the honking horns and screeching tires, he exclaimed to his friend, "Listen to that cricket!".

The friend looked at the zoologist in astonishment and said, "You hear a cricket in the middle of all this noise and confusion?"

Without a word, the zoologist reached into his pocket, took out a coin, and flipped it into the air. As it clinked on the sidewalk, a dozen heads turned in response.

The zoologist said quietly to his friend, "We hear what we listen for."

Day after day, inside and outside of business, we miss important information because we do not listen with full attention. We also misunderstand and misinterpret messages and ideas because of our preconceptions, biases, and wishes. Take the manager who dreaded to see his secretary go away for her two-week vacation. When the secretary told the boss she would be taking time off, it just did not sink in. Said the secretary later, "I told my boss three times I was planning on taking my vacation in October. It just didn't register."

Minor slip-ups in communication can have major repercussions, as any sensitive manager knows. Lack of communication between you and others in your company cannot only foul up job assignments and raise the cost of doing business, it also can cause hurt feelings and generally lower morale.

Listening is an art that requires work, self-discipline, and skill. The art of communication springs as much from knowing when to listen as it does from knowing how to use words well. Ask any good salesperson or negotiator about the value of silence. He or she will tell you good listeners generally make more sales and better deals than good talkers.

To sharpen listening skills, you need patience and practice. Here are some suggestions that have helped others become better listeners:

1. Resist the temptation to monopolize conversation. If you like to dominate a situation or feel you know everything there is to know about a subject, you are probably a poor listener. Remain open to new ideas instead of impatiently waiting for a chance to butt in with what you think is the final word on the subject. Before you speak, make sure that the speaker has had a chance to make his or her point. Many people think aloud and tend to grope towards their meaning. Their initial statements may be only a vague approximation of what they mean.

2. Avoid judging the speaker too soon. Good listeners try not to become preoccupied with a speaker's mannerisms or delivery. Instead of thinking, "What a monotone this guy has," ask yourself, "What's in the message that I should know?" or, "What can this add to my knowledge and experience?"

3. Don't fake attention. When we decide that what a speaker has to say is boring or useless, we frequently pretend to listen. It usually is quite easy for an attentive listener to recognize that our "uh-huhs" are really "ho-hums." When this happens, the speaker is likely to become confused, may get annoyed, and the delivery will probably deteriorate.

   Attentive listeners remain alert and maintain eye contact. Simple gestures — nodding, raising the eyebrows, or leaning forward -- all can convey interest. Occasional comments such as, "I see," "That's interesting," or "Tell me more about that," if said with genuine interest, can go a long way toward reassuring the speaker.

4. Listen for ideas, as well as facts. When we listen, we tend to get bogged down trying to retain the facts and we often miss the ideas behind them. For example, when a person starts running through a list of seven points, the listener immediately begins mulling over the first point, trying to remember it. Meanwhile, point two is being explained. Now the listener is preoccupied with two facts and is apt to miss the third point altogether. So it goes through point seven: some facts retained, some missed, and others confused. Instead of getting lost in a string of disassociated fragments, make an effort to understand what the facts add up to by relating them to each other and seeing what key ideas bind them together.

5. Be alert to nonverbal clues or "body language." Try not only to listen to what is said, but also to understand the attitudes and motives that lie behind the words. Remember, too, that the speaker does not always put the entire message into words. For example, there is sometimes considerable difference between the auditory cues and the behavioral cues emitted by the speaker. While the verbal message may convey conviction about a new idea or proposal, gestures, posture, facial expressions, and tone of voice may convey doubt and lack of enthusiasm.

6. Use the speed of thought productively. Because we usually think three or four time faster than we talk, we often get impatient with a speaker's slow progress, and our minds wander. Try using the extra time by silently reviewing and summarizing the speaker's main points. Then, when the speaker is finished, you can restate the points and ask if you have understood the message. Questions such as, "Is this what you mean?", or "Do I understand you correctly?" are not only supportive because they show your interest, they also reduce the chance of misunderstanding later on.

Source: Inc., October 1981.

UNIT 8: LEGAL ASPECTS

PURPOSE: The purpose of this unit is to familiarize you with the important legal aspects involved in a small business.

OBJECTIVES: At the end of this unit, you will understand the legal forms of a business organization, some of the basic rules about contracts and liabilities, and your needs for legal assistance.

UNIT 8. LEGAL ASPECTS

How should you organize your business legally? We have already discussed the three forms of business: the sole proprietorship, the partnership, and the corporation. Some people think that a corporation has to be a high enterprise and that a sole porprietorship must be a small, one-person business. They are wrong. The size of the firm is not a relevant factor. Each form has advantages and disadvantages relating to:

- o Personal liability
- o Tax level
- o Amount of legalities involved
- o Possibilities for raising money
- o Problems of transferring ownership.

On the basis of competent legal advice, consider the three options mentioned above.

Sole Proprietorship

Most American businesses are sole proprietorships -- the owner is fully accountable to himself or herself. If you choose a sole proprietorship, the freedom to be your own boss as well as to avoid possible complicated relationships in a partnership or corporation will be important to you. You will be free to open for business or go out of business by simply opening or closing the front door. (For some businesses, such as a restaurant or a liquor store, of course, state or local licenses are required.)

These advantages, however, are offset by some major disadvantages, the most serious of which is the extent of your liability. In the eyes of the law you, as sole proprietor, are your business. Therefore, you are personally liable to the extent of all your assets for the debts or other liabilities of the business. Also, a sole proprietorship lacks "business continuity"; the business dies when the proprietor dies. For this reason, a lending agency might be reluctant to give loans to a business whose sole owner is an older person. You are your business's major asset, and bankers tend to reject loan requests from a sole proprietor whom they consider a high risk in terms of repayment. Thus, the advantages and disadvantages of sole proprietorship are:

Advantages	Disadvantages
Freedom.	Unlimited personal liability.
Low legal costs.	Difficulty in raising capital.
	Some difficulty in transfering ownership.

Partnership

Less than 10 percent of American businesses are partnerships. If you choose a partnership, you have the advantage of your partner's talents and financial resources. Partnerships can provide tax shelters for wealthy partners. A partnership is formed easily without extensive legal requirements, and it is free from many types of government restrictions just as the sole proprietorship is. If you are thinking about a partnership, however, it is in your best interest to hire a lawyer, and it is to your advantage to make carefully written agreements with your partner(s) to reduce the possibility of serious problems as the business develops. Many businesses have failed or partners have "split" because there were no legal agreements made with the help of a lawyer.

A partnership could be an attractive choice for the older entrepreneur. If you choose a partner or partners who are younger, you might have an easier time raising the capital you need to finance your venture. Such a partnership can add new ideas and skills to the business. Also, you are more likely to have the opportunity to take time off from the business for recreation and leisure, which is often difficult for the sole proprietor.

In a partnership, you and your partner(s) will have the disadvantage of unlimited liability. You will be personally liable for debts incurred in the name of the partnership by any of your partners. Some other restrictions are placed on partners. For example, one partner who is leaving the partnership must have consent of the other partner(s) before selling his or her interest in the partnership. Yet, from a legal standpoint, it is easy to end the partnership.

The advantages and disadvantages of a partnership are:

Advantages	**Disadvantages**
Assets your partner brings to the prospective business.	Unlimited personal liability.
Lower legal start-up costs than a corporation.	Difficulty in transferring ownership.
Simple to end a partnership legally (with assistance of a lawyer).	Lack of business continuity.
Possibly lower taxes.	

Corporation

If you decide to incorporate your business, you will be creating a legal entity in the eyes of the law -- an artificial being with a life of

its own. Your personal liability, therefore, is limited; this is a major advantage. Also, the corporation, as a legal entity, has continuity and may well outlive its founders. Ownership is easily transferred by selling stock to investors. Selling stock is an easy way to raise more capital when it becomes necessary. For these reasons, a corporate business form could be a good choice for an older entrepreneur.

The major disadvantage is that you will have the burden of government regulations. Your corporation will have to have a state charter that will require a minimum of three incorporators. Your corporation will have to meet several legal requirements regarding taxes, fees, directors, debts, liability, amount of capital, and rules for issuing stock.

To launch the corporation effectively, you will need an attorney. The fee will add to the start-up costs of your business, but the cost is worth it. Your taxes also will tend to be higher if you have a regular corporation because corporations pay income taxes on profits and shareholders pay personal income taxes on dividends. You might be able to avoid double taxation by forming a Subchapter-S corporation. This type of corporation has several legal restrictions involving sources of sales revenues, number of stockholders, and type of stockholders (only individuals or estates). Also, yours must be an independent, domestic corporation. However, it is taxed as a partnership.

The advantages and disadvantages of a corporation are:

Advantages	**Disadvantages**
Limited liability.	Considerable government regulations.
Easier to raise money.	More legal assistance required.
Easy transfer of ownership.	Taxes possibly higher than in other forms of business.
Business continuity.	

Hiring a lawyer is often the best way to keep on top of legal requirements and can save you money in the long run. You might use an attorney for the following situations: organizing a business, negotiating contracts, obtaining licenses, acquiring or leasing property, borrowing money, planning for taxes, litigating, and disposing of the business.

When you are in the market for a lawyer, get recommendations from other small business people. They are likely to know attorneys who have interest and experience in small businesses and who enjoy working with an entrepreneur. When you talk with attorneys, remember you are the one who is doing the hiring. It is important that your needs be met.

SUPPLEMENTAL INFORMATION

Shopping for Professional Services

When you want to hire a lawyer or accountant, how should you go about it? In each situation you want to find someone who will take an interest in your business, someone you have confidence in, and someone who will save you money in the long run. Professionals who have worked with small business people previously are sound candidates. Ask other entrepreneurs for their recommendations.

Selecting an Attorney

The American Bar Association says that the three key areas to consider when hiring an attorney are: competence, price, and accessbility.

A lawyer should not only have a good reputation in the community, but also should be involved in the areas in which you are likely to be involved. As a small business owner, you might use a lawyer's assistance in:

- o Starting and closing the business.
- o Financing the business.
- o Choosing the most appropriate form for your business -- sole proprietorship, partnership, or corporation.
- o Negotiating a lease or a mortgage and obtaining a title search.
- o Advising on tax law.
- o Preparing or reviewing contracts.

The legal professional provides resources that can help you choose a lawyer. The Martindale-Hubble Law Dictionary, found in most public libraries, lists members of the bar in the U.S. and Canada. It also furnishes background information on each member. State bar associations often maintain referral programs. The yellow pages of the telephone directory, under the listing "Attorneys," cites legal referral services. Legal aid clinics supply legal advice for a nominal charge or no fee.

Understand clearly from the start the charges you will pay for legal counsel and what legal moves will be taken. If there is paperwork to sign, know what you are signing. Follow the same precautionary measures as for any previous legal transactions in which you have been involved. Have the attorney determine how many hours may be entailed in working on your case. Find out if there will be any "add-ons" or extra expenses placed on your account, and obtain a receipt if you pay a retainer.

For more information, consult the following:

American Bar Association. The American Lawyer: How to Choose and Use One, 1978. Contact: American Bar Association, 1800 M Street, NW, Washington, D.C. 20036.

Selecting an Accountant

Accountants handle the nuts and bolts of a business:

- o Bookkeeping.
- o Preparing returns.
- o Offering tax advice.
- o Auditing.

A person in a small business must maintain precise, accurate records. To do this you may choose to hire either an individual or a firm. Your objective is to match the needs of your business with the resources offered by the accountant or the accounting organization. An important attribute to look for in an accounting firm is whether the organization provides advice on solving financial problems that the firm's representative spots. An accounting firm that specializes in problem solving only after the damage is done does little to help you run a cost-effective business.

Certified public accountants (CPAs) are licensed professional accountants who have met the statutory requirements of the state and have passed the uniform CPA exam. CPAs are required to keep informed of changes in the accounting field through continuing education and to uphold a professional code of ethical practices.

In addition to recommendations and personal contacts, state directories of accounting practitioners and firms serve as good resources in obtaining an accountant. The yellow pages also lists CPAs and accounting firms.

Your should have a clear understanding of and an agreement with the accountant on the work to be done and the fee arrangements. Determine how much money you can expect to pay for each specific service.

For more information, consult the following:

American Institute of Certified Public Accountants. How to Choose and Use a CPA. Contact: American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10030.

UNIT 9: INSURANCE

PURPOSE: The purpose of this unit is to familiarize you with the major risks and liabilities for which a small business can obtain insurance and how to select an insurance agent.

OBJECTIVE: At the end of this unit, you will be able to identify your major business risks and choose a competent insurance agent to provide adequate coverage for your business.

UNIT 9. INSURANCE

Whichever legal form you choose for your business, having the right kinds of insurance in the right amounts will be important to your peace of mind. The most important forms of insurance for the small businesses are:

- o General liability insurance (liability to general public or to employees).
- o Property loss insurance (physical damage, loss of use of property, or criminal activity).
- o Auto liability insurance for vehicles.
- o Workmen's compensation for employees.
- o Health insurance for owners and employees.
- o Life insurance or annuity contracts for owners and employees.

It is important to carry enough insurance to protect yourself and your business from major losses; at the same time, you want to avoid purchasing too much or unnecessary insurance. A reputable insurance agent can help you avoid either mistake.

The Small Business Administration's Insurance Checklist for Small Business (SMA/148), available free from your local SBA office, offers some wise advice on organizing your insurance program.

What should you consider when deciding on the insurance you need for your small business? The following discussion will help you with your decisions.

Recognize the Risks

The first step toward good protection is to recognize the risks you face and make up your mind to do something about them. Wishful thinking or an it-can't-happen-to-me attitude will not lessen or remove the possibility that a ruinous misfortune may strike your business.

Some businesses will need coverages not mentioned in the checklist, for example, to cover the loss of costly professional tools or business interruption insurance resulting from being unable to use the equipment.

Study Insurance Costs

Before you purchase insurance, investigate the methods by which you can reduce the costs of your coverage. Follow this checklist:

1. Decide what perils to insure against and how much loss you might suffer from each.

2. Cover your largest loss exposure first.

3. Choose as high a deductible as you can afford.

4. Avoid duplication in insurance.

5. Buy in as large a unit as possible. Many of the "package policies" are suitable for the types of small businesses they are designed to serve, and often they are the only way a small business can really get adequate protection.

6. Review your insurance program periodically to make sure that your coverage is adequate and your premiums are as low as possible, but consistent with sound protection.

Have a Plan

To manage your insurance program for adequate coverage at the lowest possible cost, you will need a plan that supports the objectives of your business. Below are suggestions for good risk and insurance management:

1. Write a clear statement of what you expect insurance to do for your firm.

2. Select only one agent to handle your insurance; having more than one may spread and weaken responsibility.

3. If an employee or partner is going to be responsible for your insurance program, be sure he or she understands the responsibility.

4. Do everything possible to prevent losses and to keep those that do occur as small as possible.

5. Do not withhold from your insurance agent important information about your business and its exposure to loss. Treat your agent as a professional helper.

6. Do not try to save money by underinsuring or by not covering perils that could cause loss, even though you think the probability of their occurring is very small.

7. Keep complete records of your insurance policies, premiums paid, losses, and loss recoveries. This information will help you get better coverage at lower costs in the future.

8. Have your property appraised periodically by independent appraisers. This will keep you informed as to just what your risks are, and you will be better able to prove what your actual losses are if any occur.

Get Professional Advice About Your Insurance

Insurance is a complex and detailed subject. A professionally qualified agent, broker, or consultant can earn his or her fee many times over.

The cost and coverage of an insurance program are prime considerations. You need to understand exactly how much you will be paying for protection, savings, and dividends you will receive. You should be clear about how much money you will get back if you cash in your policy and the amount that your beneficiary will receive in case of your death. Shop around and compare various policies. Take time in deciding which is best for your particular needs. The choice of an appropriate insurance policy ought to be part of an overall risk management program that will assist you in identifying the potential risks to your business and provide the means to handle those risks.

These are some questions your insurance agent should be able to answer concerning a prospective policy:

- What are the terms of the provisions?
- In the case of life insurance, can you start a savings account or buy high interest certificates to accompany basic death protection?
- What is the rate of return on the savings portion of a life insurance policy?
- In the case of life insurance, is there a disclosure on a timely or regular basis?
- Do you qualify for a group rather than individual health insurance plan?

You already may have some insurance coverage and be familiar with both an agent and a company. Perhaps your agent knows of ways to diversify your existing coverage or can suggest additional policies to meet your business needs. If the agency offers only one area of insurance, perhaps the agent can recommend other agencies to provide the particular coverage you will require. Again, other professional people, as well as telephone directory listings, can serve as resources for names of agents and companies.

Selecting the professional help you need can prevent you from getting into difficult situations and can provide the assistance you need to prosper in your small business venture.

For more information, consult the following:

Insurance Information Institute. Risk Management for Business, 1981. Contact: Insurance Information Institute, 1025 Vermont Avenue, NW, Washington, D.C. 20005.

Crime Prevention

In addition to being well insured against some types of losses, you also can take steps to reduce or eliminate damage. Crime prevention is a good example of this. Locks, burglar alarms, and effective lighting can deter a burglar; caution in opening and closing stores and in answering night calls for service can reduce your robbery risk. You can discourage retail theft by carefully screening employees and by having clear policies on pricing, refunds, and how cash is handled.

The free Small Business Administration publications cited below will give you details on crime prevention:

- o Preventing Burglary and Robbery Loss (SMA/134).
- o Preventing Retail Theft (SMA/119).
- o Preventing Embezzlement (SMA/151).

UNIT 10: TAXES

PURPOSE: The purpose of this unit is to familiarize you with federal, state, and local tax obligations of your small business.

OBJECTIVE: At the end of this unit, you will understand the major tax obligations of your small business and be able to obtain assistance from a CPA, government agencies, and others regarding your tax obligations when operating a small business.

UNIT 10. TAXES

You will have two types of tax obligations as a small business owner: (1) paying several kinds of taxes that you owe and (2) withholding taxes that you collect for the government.

1. As the tax debtor, you will have to pay federal income taxes and local state taxes, including real estate and property taxes. Also, your business license is one form of tax. Depending on your business, you might have to pay a federal excise tax on the sale of a few products; liquor store owners, for example, pay a federal excise tax. If you have four or more employees, you will have to pay both federal and state unemployment taxes on your employees' salaries or wages. As an employer, you also will pay a portion of the social security tax on your employees' salaries or wages.

2. When required to withhold taxes, you will be acting as a tax agent. Most states and some local governments impose sales taxes that you will have to collect and pass on to the state or local government. You also will be required to withhold employees' income taxes based on their exemptions and social security taxes based on a clearly defined percentage of their salaries.[1]

Tax Reforms

Small businesses seem to be hit hard by the prevailing tax system. It is difficult for the small business to maintain cash flow during recessions. Since small businesses have difficulty raising capital, every dollar that goes to taxes hurts more. Few tax incentives exist to attract capital into small businesses. Also, tax-free mergers with large businesses tend to discourage longevity for independent small businesses.[2]

The Miscellaneous Revenue Act, however, allows you to deduct costs of investigating and starting your business. The deductions have to be spread over five years. Investigating costs are those incurred before you make the decision to start or acquire a firm. Start-up costs are those that you incur after you decide to start your business but before it is operating. Start-up costs include monies spent for advertising or acquiring necessary equipment, for example.[3]

In reporting your taxes, you will want to practice as much tax avoidance as possible; that is, you want to make certain that you are paying the

least amount of taxes you can by taking every deduction possible. For instance, your financial situation and how the tax structure affects your business might well be the determining factor in which legal form of organization you choose for your business. A good tax accountant can help with that decision. In another instance, it might save taxes to lease equipment rather than buy it outright. Also, new tax rules now allow you to write off the costs of vehicles and equipment in fewer years than before. Faster depreciation not only can give you a large deduction to offset profits, but it offers you an incentive to renew your equipment more frequently rather than stick with outdated gear. That can be important in finding ways to cut costs and in keeping you competitive. Tax avoidance, of course, is not tax evasion. Tax evasion is not reporting all your profits and income and the corresponding taxes you owe.

Clearly, to stay on top of all this you are going to need a solid, reliable tax reporting system. The Internal Revenue Service requires small business owners to keep records of:

- o Sales revenues.
- o Tax-deductible expenses.
- o Inventories.
- o Employees' social security numbers and addresses.

You should always prepare your taxes mindful that you might be audited. If audited, you will be required to prove that your entries are correct. To make sure you are paying the various required taxes on time, you will need a checklist of taxes you must pay, their due dates, and the titles of the forms you will need to file.

Tax Incentives

As a prospective business owner, you should be aware that some tax incentives exist. Your accountant can explain them in detail, but most come under the auspices of the U.S. Department of Labor's Employment and Training Administration. Among them is the Senior Community Service Employment Program.

The Senior Community Employment Program (SCSEP) is a way to cut tax corners, help an older citizen who is economically disadvantaged, and even assist yourself in business. SCSEP supports the establishment of part-time jobs in community service for low-income individuals who are at least 55 years of age, jobless, and have poor employment opportunities. SCSEP projects are found in every state, in addition to the District of Columbia, Puerto Rico, and the U.S. territories. Eight national sponsoring organizations assist in SCSEP's work. They are: Green Thumb, Inc., an arm of the National Farmers Union; National Council of Senior Citizens; National Coun-

cil on Aging; National Urban League; National Center on Black Aged; National Retired Teachers Association/American Association of Retired Persons; U.S. Department of Agriculture's Forest Service; and National Association of Pro-Spanish Speaking Elderly.

SCSEP participants work part-time (20-25 hours per week) in various community organizations such as schools, programs for handicapped individuals, senior citizen centers, day care centers, hospitals, and conservation, restoration, and fire prevention programs. They receive the federal or state minimum wage or the local prevailing wage, whichever is higher. In addition, physical examinations, personal and job-related counseling, and job training are provided. More information may be obtained by contacting the following:

Office of National Programs
Older Workers Work Group
U.S. Department of Labor
601 D Street, NW Room 6122
Washington, D.C. 20213

Keeping Current

It is important that you keep up with changes in the law; your accountant/CPA will be extremely helpful to you in this regard. How an accountant can help you is discussed in the section entitled, "Shopping for Professional Services" in Unit 8.

Footnotes

1. H. N. Broom and Justin G. Longenecker, Small Business Management, Cincinnati, Ohio: South-Western Publishing Company, 1979, p. 430.

2. Ibid., p. 432.

3. Gerald F. Hunter, "New Write-Offs for Start-Ups," Venture, July 1981, p. 20.

SUPPLEMENTAL INFORMATION

Governmental Publications

Knowledge of tax information in general and of tax incentives in particular is both helpful and necessary in establishing, operating, and closing your business. Different tax responsibilities and laws will apply to your business depending on whether it is a sole proprietorship, a partnership, or a corporation. One of the most useful guides which discusses the forms of business organization and tax laws is the Tax Guide for Small Business (Number 334) prepared by the Internal Revenue Service. The guide contains information on tax aspects of accounting, business income for tax purposes, sale or exchange of property, capital gains and losses, and credit and income tax procedures used by businesses.

More information on tax incentives and benefits may be obtained from the Internal Revenue Service publication, Tax Benefit for Older Americans (Number 554).

Two free Small Business Administration publications also might be helpful to you:

- Steps in Meeting Your Tax Obligations (SMA/142).
- Getting the Facts for Income Tax Reporting (SMA/155).

SUPPLEMENTAL INFORMATION

Five Ways to Reduce Your Business Taxes

1. Remember: Good records make for more deductions. Most small business owners believe just the opposite, when in fact, an accountant can find any number of deductions from your complete records. Sometimes this means recording expenditures of only a few dollars a day, but by the end of the year, those few dollars can add up to a tidy deduction.

2. New tax laws allow for a direct write-off of capital expenditures of up to $7,500 in 1983, and $10,000/year thereafter. This can be very helpful to the small business owner, and even can be used for an item like a company car.

3. The small business owner can take a 10 percent investment tax credit on capital expenditures with a useful life of at least 3 years.

4. Depreciation schedules are calculated to the advantage of the small business owner. Don't forget to use them.

5. The targeted jobs tax credit provisions were expanded in 1982 (through the passage of the Tax Equity and Fiscal Responsibility Act) to benefit employers who hire members of certain target groups: Vietnam veterans, Aid to Families with Dependent Children (AFDC) participants, Work Incentive Program (WIN) registrants, and economically disadvantaged cooperative education students.

HOME ASSIGNMENT

Tax Reporting and Record Keeping

1. Read SBA/SMA Number 155, "Keeping Records in a Small Business."

2. Develop a calendar for record keeping and reporting the federal taxes for your business.

3. Obtain a copy of your state's tax requirements as well as one from your local city and/or county. Add them to your calendar.

4. Secure copies of all of the report forms your business will need for the coming year.

5. What community resources are available to assist new entrepreneurs in the development of a sound tax reporting system? List names, addresses, and phone numbers.

6. Be clear on whether the number of persons employed in your business subjects your business to various federal tax programs such as social security. Sometimes you can pick up the personnel services you need in ways that do not require you to pay the management share of the social security tax or other taxes for employees. In the case of contract personnel or consultants, the employer often pays a gross sum to the contractor or individual consultant(s) involved. Then, for social security and other payroll tax purposes, the contractor becomes the employer of the personnel involved; an individual consultant is usually considered "self-employed" and pays the social security self-employment tax directly.

7. Beyond the requirement that employers pay a portion of the social security taxes for their employees each year, the law requires that employers file periodic earnings reports for each taxed employee and for themselves. This is not merely a reporting requirement. It is the means by which your employees and you get earned credit posted on the master eligibility records kept for each future beneficiary of the social security system, so that eventually you and your employees qualify for retirement or disability benefits. Inaccurate or delinquent filings by you could reduce necessary revenue to the Social Security Trust Funds, deprive you and your employees of full benefits, and cause errors and other processing problems that could delay your former employees' retirement or disability application, or your own.

SUPPLEMENTAL INFORMATION

Taxes: Regulations for Going Into Business

If you are thinking of going into business, a lot of people need to know about it, including your future customers, the Chamber of Commerce, and local newspapers. However, Uncle Sam also needs to know about your business. The following has been prepared as a guide through the government maze of regulations.

Investigative Regulations

1. Federal

Federal agencies regulate interstate commerce; truth-in-lending; preparation and sale of food, drugs, cosmetics, and flammable fabrics; labeling; environmental protection; truth-in-advertising; common carriers; radio and TV stations; investment advisory services; employee health and safety; and actions that decrease competition.

Most small businesses are more directly affected by regulations controlling wages, hours, working conditions, and fair hiring practices. Specific information on these subjects can be obtained from the U.S. Department of Labor.

2. State

Corporate charters are granted by the state, and there is a requirement for filing an annual statement identifying the officers of the corporation, their addresses, and the addresses of the principal offices of the corporation. Each state requires its own procedure for acquiring a corporate charter. For information, contact the Secretary of State, Division of Corporations, in the state in which you want to incorporate.

Limited partnerships also must be registered with this state agency. Forming a corporation or a limited partnership should be accomplished through an attorney.

For information on licensing of the following: accountants; architects; chiropractors; contractors; dentists; dental hygienists; professional engineers; surveyors; funeral directors; embalmers; physicians; physical therapists; registered nurses; practical nurses; optometrists; osteopaths; pharmacists; veterinarians; barbers; cosmetologists; masseurs; naturopaths; opticians; realtors; and sanitariums, contact the Department of Professional and Occupational Regulation in your state. The list changes from time to time, so it is advisable to check for additions and deletions.

For information about regulations and licensing requirements for the following: commercial fishing and agriculture; construction and environmental permits; corporate requirements; food, beverage, and lodging establishments; fuels and petroleum products; health and sanitation; hiring employees; investigative agencies; mortgage brokers; motor vehicles and other equipment; motor vehicle retail installment and sales; nursing homes; outdoor advertisers; pest control; private employment agencies; and trademark registration, contact Business Regulations and License Requirements, Division of Economic Development, Department of Commerce in your state.

3. Local

County and most municipal governments require that you obtain an occupational license to operate a business and that your place of business be inspected to ensure adherence to their codes.

The first step to take is to make sure that the local zoning regulations permit you to use the prospective site for your particular type of business. This is important even if you plan to purchase an existing business because zoning regulations do change. If the site is located in the incorporated section of the county, contact the County Zoning Office. Otherwise, contact the Zoning Office in the appropriate city.

The next step is to apply for an occupational license from the County Finance Department and/or the City License and Inspection Office. Most licenses expire each year.

Most cities charge a fee for inspection and licensing that varies depending upon the type and size of the business. Some businesses, such as hotels, restaurants, and farms, may be subject to special inspections or regulations. Check with the appropriate agency in each locality to see if there are other regulations governing your type of business.

If any person engages in business under a name other than his or her own, and if the business is not incorpoated, a fictitious name statement must be filed with the Clerk of Circuit Court in the county in which the business is conducted. The purpose of filing is to assure that the business name is not already in use in the county and to make a public record of who the business owner is for the protection of consumers. The statement should be filed four weeks prior to beginning the business or must be filed within 30 days of the business beginning to operate, and must be published once a week for successive weeks in a newspaper of general circulation in the area of the business.

Federal Taxes

a. Employer Identification Number and Information

An employer identification number is required for all businesses with employees (all who work for a corporation are employees) and for businesses engaged in exporting or importing. Ask for Form SS4 to apply. Also, ask the IRS for the booklets, "Employer's Tax Guide," "Tax Guide for Small Business," and "Your Business Tax Kit."

b. Income Tax

For the sole proprietor, filing income tax returns is relatively uncomplicated. The owner submits a Schedule C (Form 1040) with the individual income tax return. Form 1040 estimated tax returns and quarterly payments normally are required during the tax year.

A partnership's income is taxed as personal income to the partners, with each partner reporting his or her share of the profits on an individual tax return. The partnership itself is not taxed. However, its income must be determined and filed for information purposes on Form 1065.

Corporation taxes on net profits are substantial. Rates are subject to change, so it is best to check annually.

Corporate income is subject to double taxation: first, when earned by the corporation, and second, when the stockholder pays personal income tax on dividends. The corporate income tax is filed on Form 1120.

One of the income tax provisions important to business owners is the investment tax credit which is allowed on the purchase of certain types of new and used equipment. The property must have a useful life of at least three years. Details are listed in the IRS Tax Guide for Small Business (publication 334).

b. Social Security Tax

In the 1982 tax year, 6.7 percent of the employee's gross pay up to $32,400 was required to be withheld by the employer. The employer matches this amount and either pays direct to the IRS at the end of the quarter, or if over a certain sum, forwards it (by means of Form 501) for deposit in the nearest Federal Reserve Bank or to a local commercial bank authorized to receive it. Sole proprietors and partners pay a self-employment tax in lieu of social security. The rate is 9.35 percent on the first $32,400, and payment is made along with income tax by submitting a Schedule SE with the Form 10[illegible]. Social security and self-employment tax rates are scheduled

to increase periodically over the years ahead. For an update on changes in the law, contact the Social Security Administration.

c. Excise Tax

Federal excise taxes are imposed on the sale or use of some items, on certain transactions, and on some occupations. Any owner who is in doubt about the excise tax liability should check the nearest IRS Office. Excise taxes must be paid quarterly on Form 720.

d. Unemployment Tax

Every employer who pay wages of $1,500 or more in any quarter or has one or more employees in each of 20 calendar weeks, is subject to the Federal Unemployment Tax Act (FUTA). The tax must be paid by January 31 of each year by filing Form 940.

State Taxes

a. Unemployment Tax

Most states have their own unemployment program. The employer pays the unemployment tax which goes into a state fund. The rate differs from state to state. Contact one of the following state offices for information: Unemployment Compensation Field Tax Office or Unemployment Compensation Claims Office.

b. Corporation Income Tax

In 1982, corporations were taxed at the rate of 5 percent of net income over $5,000. Corporations doing business in other states receive some credit for other income taxes paid. Again, check with IRS for current rates.

c. Sales and Use Tax

Businesses in each state are required to register with the State Department of Revenue and act as an agent for the state in the collection of sales tax. On a monthly basis, the owner must determine the amount of sales tax collected and forward a large percentage of it to the Department of Revenue. The remaining percentage is retained by the business to compensate for the cost of collecting the tax.

The identifying tax number that is issued can be used by the business to buy goods for resale without paying sales tax to the supplier. When a business buys goods or materials tax free and then uses them in the business, they are subject to a use tax.

Application for the tax number should be made at the Department of Revenue in your state.

d. Intangible Personal Property Tax

Two types of intangible personal property taxes are levied:

- o A non-recurring tax on notes, bonds, and other obligations secured by mortgage, deed of trust, or other lien on real property. This tax is collected at the time of recording of the documents.

- o An annual tax on such things as stocks, bonds, notes, and accounts receivable which are held by the business on January 1 of each year. The return, with a copy of the December 31 balance sheet, must be filed before June 30 with the Department of Revenue. (This tax is not payable if the total due is less than $5.00.)

e. Other Taxes

Taxes of a specialized nature apply to several types of businesses. For a complete listing, contact the Department of Commerce, Division of Economic Development.

Local Taxes

a. Real Property Tax

Property taxes are based on the value of the property on a set, preceding date. Check with the county tax collector in the county in which the property is located for property tax liability.

b. Tangible Personal Property Tax

The tangible personal property tax includes what is commonly known as the inventory tax. All items of inventory are assessed each year at a percentage of their just valuation, except for raw materials and goods in the process of manufacture. Business fixtures, machinery, and equipment are subject to tangible personal property tax. The tax rate for them is the same as for real property. For information, check with the county tax collector where your business is located.

Workers' Compensation

While not a tax levied, states do have a Workers' Compensation Law which affects most businesses. Any employer with three or more em-

ployees must comply with the law either by obtaining a Workers' Compensation Insurance Policy through an insurance agent, or by qualifying as a self-insurer. For additional information, contact: Department of Labor and Employment Security, Division of Workers' Compensation.

Source: Credit for this information and general format goes to Evelyn Fine, Program Coordinator, Center for Small Business, Daytona Beach Community College, Florida.

UNIT 11: BUYING OR STARTING A SMALL BUSINESS

PURPOSE: The purpose of this unit is to present the advantages and disadvantages of buying or starting a small business.

OBJECTIVE: At the end of this unit, you will be able to evaluate the advantages and disadvantages of buying or starting a small business.

UNIT 11. BUYING OR STARTING A SMALL BUSINESS

If you are considering buying a business rather than starting one from the ground up, you should consider the kind of business you really want. Take careful stock of your interests, work experiences, educational background, and energy level. Geographical preference also may be a factor in your search.

When you find a likely prospect, take a long and hard look at: (1) the business; (2) its past performance; (3) its future prospects; (4) its location; (5) the business atmosphere in general; and (6) the business climate for the particular product or service offered. Also, ask yourself, "Realistically, am I up to taking on the problems I would be inheriting?"

Some specific steps that might be helpful to you as a prospective buyer are outlined in the following passages from Small Business Management.[1]

Find out why the current owner is selling. There are any number of personal reasons why someone would sell a business. The one reason you have to be concerned about is that the firm may be going into a decline. Perhaps the owner has some information about a possible private or public construction plan that could seriously affect business. Is the owner really fed up with shoplifting, unsafe streets, new property taxes, burdensome regulations, growing competition, etc.? You'll have to check out all the angles. Beware of "bargain" business opportunities; many people have been victimized by what seemed like the best possible offer at the time.

Determine how profitable the business is now and has been for several years. This will require an intense analysis of the business.

Have an accountant conduct an audit to make certain that the records you're obtaining are accurate and complete statements.

Weigh the assets of the business against the liabilities. Such items as goodwill in the community may or may not help you if you become the next owner. It's wise to have your accountant verify the assets and their condition by, for example, physically checking the inventory.

Obtain the accountant's advice on how to minimize taxes if you buy the business. Would paying cash for the business be preferable to buying capital stock in the corporation? Or would the reverse be true? You want to establish your best tax position initially; this is the time to do it.

Make certain you are represented by an attorney during the final negotiating stages and at the closing. It's preferable to have an independent third party such as a title company act as the closing agent. You

should be on guard if the seller suggests that his or her attorney act as the agent. Your attorney can prepare agreements and closing papers, including the following:

- o A description of what is being sold.
- o Agreements on adjustments involving insurance premiums, payroll, rent, and so on.
- o Seller's warranties against false statements.
- o Seller's convenant not to compete against you.

Should You Buy a Business? . . . Or, Start One?

In making the decision about buying as opposed to starting a business, you should realize that the decision involved is a tradeoff. In buying, you are taking another person's business and changing it to make it your own; you are not initiating your own business as you want it in every way. The following discussion looks at the advantages and disadvantages of buying an existing business.

Advantages

- o Will save you the enormous time and effort required to start a business.
- o Will save basic start-up costs.
- o Means the firm's resources and capabilities are more of a known quantity.
- o Could increase your chance of success if the business is a solid one.

Disadvantages

- o Allows fewer options for the buyer -- particularly in selecting location, building, equipment, etc.
- o May require considerable money and effort to change an old image, modernize a facility, and/or attract new clientele.
- o Bequeathes you the hidden liabilities of the old firm such as negative attitudes of employees/customers, or well-entrenched practices that are difficult to eliminate.

Your decision to buy a business or initiate one of your own is a personal one that depends on your circumstances, attitudes, and experience, as well as the existing opportunities to enter a business for profit and enjoyment. Only you know what is right for you.

Small Business Administration publications that might be helpful in making your decision are:

- o Thinking About Going Into Business (SMA/170).
- o Home Business (Small Business Bibliography/2).

The latter lists books in a variety of areas to help those looking for a small business to operate at home.

Footnotes

1. Adapted from H. N. Broom and Justin G. Longnecker, Small Business Management, Cincinnati, Ohio: South-Western Publishing Company, 1979, pp. 64-70.

2. Dan Steinhoff, Small Business Management Fundamentals, New York: McGraw-Hill, 1978, p. 258.

SUPPLEMENTAL INFORMATION

What Does a Prospective Business Owner Need to Explore Before Buying an Existing Business?

1. Profitability

2. Tangible Assets

Merchandise Inventory	Itemization Condition Age
Equipment Fixtures	Condition Age Market Value (allowing for depreciation and obsolescence)
Supplies	
Accounts Receivable	Age Collectability
Credit Records	
Mailing Lists	
Leases	
Goodwill	

3. Liabilities

4. Basic legal advice needed before purchase of an existing business should include but not be limited to:

   a. A description of what is being sold.

   b. The purchase price.

   c. A statement of how adjustments are to be handled at the time of closing (for example, adjustments for inventory sold, rent, payroll, and insurance premiums).

   d. Buyer's assumption of contracts and liabilities.

   e. Seller's warranties (for example, warranty protection for the buyer against false statements of the seller, inaccurate financial data, and undisclosed liabilities).

f. Seller's obligation and assumption of risk pending closing.

g. Covenant of seller not to compete.

h. Time, place, and procedures of closing.

Source: Adapted from Wendell O. Metcalf, Starting and Managing a Small Business of Your Own, Starting and Manging Series, Volume 1, Third Edition, (U.S. Small Business Adminstration, 1973), p. 40.

UNIT 12: RAISING CAPITAL

PURPOSE: The purpose of this unit is to acquaint you with various sources of funds for your business and procedures for applying for such funds.

OBJECTIVE: At the end of this unit, you will be able to identify sources of funds for your business. You will have procedures for applying for a bank loan, an SBA loan, and a loan through an SBIC or MESBIC. In addition, by preparing the loan application package, you will have reviewed all of the information you have developed during the course.

UNIT 12. RAISING CAPITAL

You are now ready to consider how to raise money in order to start your own business. This unit discusses how to do this.

Your Own Resources

Calculating your own resources is the first thing to do. You must weigh what you could spare from savings, investments, or through borrowing on the accumulated cash value of your life insurance. Use of your own resources in a business venture is a very serious step. You must not only consider what you can spare from your reserves, but what would happen if you had a business failure and your capital was lost. Also, if you borrow from the cash value of your life insurance, the dollar value of the insurance coverage left is lowered by the amount you have borrowed. If you lose your capital on account of business failure, you forfeit insurance coverage. If you died suddenly, your spouse or other survivors would receive that much less from your insurance policy.

Getting Help From Others

You may assume at the outset that you will use your own capital. The National Federation of Independent Business developed a small business owner survey that showed that 45 percent of the respondents used personal savings to get started; 13 percent acquired funds from friends; and 4 percent used the resources of private investors. Only 29 percent acquired their start-up funds from banks or other lending institutions; 1 percent used government funds. Some people say that the best test for you to decide whether you have a viable business idea or activity is not whether you will invest in it, but rather, will strangers do so. No hard and fast rule exists to guide you. There are many examples of people who used their own funds and made a go of it after banks turned them down.

No matter how you begin, you may discover later that you need a bank loan to get through a special expense or to tide you over a cash flow gap. Anytime you enlist the help of others, you will have to justify your ideas and plans. The more clearly and carefully you have prepared your case, the better chance you will have of getting help from others.

How do you obtain other people's money? Basically, there are three ways:

1. Go to your network of relatives and friends.
2. Go to a lending institution.
3. Go to a venture capitalist.

These methods are not mutually exclusive, and depending on the scale of business you wish to undertake, you may have to use all three. In fact, they tend to support one another. For example, if you already have raised a sizeable amount of capital from friends and relatives, or from a venture capitalist, and put it together with your own capital, that fact is likely to carry a great deal of weight with a lending institution that is reviewing your application for a loan to raise still more money. The old saying is quite true: If you have money, it is a lot easier to borrow money.

Your Network of Relatives and Friends

A social network is a very common way of raising seed money to start a small business. Here is where you might have some advantage as an older person. You have been around for a long time, enough time to build a network of friends and relatives in your community, and some of them might have money to invest. If you can persuade one or a few of them of the validity of your idea, they might be willing to back you in your venture as either "silent" or active partners. A typical pattern is one in which close friends have considered for years the idea of starting a business together. One day they decide it is time to either start a new bueinsss or purchase an existing one. They agree to pool their resources, seek further backing from others in their respective networks, and thus accumulate some seed money. Then they go to a commercial lender or a venture capitalist to raise more.

A word of caution, however: your social or informal network can be a dangerous source of seed money. Friends and relatives have a tendency to associate lending money with ownership and may interfere with the running of the business. Disagreements over how to run the business, especially if you face a downturn in profits, can end friendships and split families.

Lending Institutions

The customary lending source for starting a small business is a bank. Although changes in federal laws are expected to allow savings and loan associations, which traditionally have been involved in financing real estate transactions, to enter the fields of consumer and commerical lending, there is no reason to think that their standards for judging the merits of loan applications (and applicants) will be any different from those of banks. In fact, bankers expect the savings and loan associations to acquire quick expertise in these new areas simply by hiring talent away from the banking industry.

Other lending institutions include: (1) commercial finance companies; (2) insurance companies (policy loans); (3) federal agencies such as the Small Business Administration (SBA).

There are three reasons to borrow money:

1. To obtain start-up money for your business.

2. To provide working capital for growth.

3. To cover a temporary lag in cash flow.

Loans may be either short-term or long-term. Long-term loans are used to buy equipment and other fixed assets such as a building or commercial real estate (start-up costs), or to carry your company through a period of sustained growth (working capital loans). Short-term loans are used for short-range purposes in which repayment is linked to a specific event such as a single turnover of inventory, sale of a specific asset, fulfillment of a contract and receipt of payment, or the end of a predictable seasonal slump. You should not make the mistake of attempting to finance long-term needs with short-term loans or the reverse.

Commercial loan officers closely examine two major personal factors in deciding whether to authorize a business loan: (1) your qualifications to operate the kind of business you have in mind; and (2) your personal financial health. In the case of an older person, they also may weigh what happens if you pass away or are incapacitated. Obviously, this is a standard consideration in loaning to anyone, but in the case of an older loan prospect, the lender may figure the odds differently. Let's look closer at each of these factors.

Your Qualifications to Operate the Kind of Business You Have in Mind

This factor is perhaps the most critical of all. If you are not qualified to run the business you want to start, other factors in your favor will not do you much good. You also need to recognize that lenders may share a widely held bias that older people are set in their ways, are slow to learn, and are not innovative. Try to convince the lender of three things if you think he/she holds this bias:

- That you have knowledge and experience in the field of your proposed business.
- That you are open to ideas, and are capable of learning from your own and others' experiences.
- That you can manage the business, make it grow, and handle problems that go with growth.

If years of work as somebody's employee or in a sideline occupation have allowed you to develop expertise in a given field, that is a plus. On the other hand, if a lending officer perceives that your preparation for self-employment consists of little more than a lifelong yearning to be your "own boss" and some courses, or even a degree in your field of interest, your loan application is not likely to be approved. The attitude, in other words, is that dabblers should not apply.

Your Personal Financial Health

Even if a loan officer is satisfied that you have the requisite experience and management capabilities, that is not enough. Remember, you may have no track record as a business owner and operator. The lender, therefore, will want to know what personal assets you have to fall back on during the difficult start-up period and how you will pay your normal living expenses during the early years, when there could be little or no profit. If you have few liquid assets and are heavily in debt, your chances of getting a business loan are slim. Generally, lenders want the borrower to have raised more than 50 percent of the new company's assets before opening the doors. Loan officers are not interested in becoming "senior partners" in your business by supplying the bulk of your capital; they are primarily interested in making money by lending money, with maximum safety to themselves. It is highly reassuring to them to know that you raised more than half of what you need. Your willingness to liquidate assets to go into business is a favorable sign to them. If you have put up at least half of the capital, you are in charge, and that is why you want to be in business in the first place.

If you are an older person who wants to start a business and you have little or no capital but are willing to put up your own home as collateral for a commerical loan, you should be aware that there is substantial risk of default on the loan, and therefore a good chance that the home will be repossessed. This may be a big risk for you to take. Also, the lender may look at your age and be skeptical about your ability to handle a long-term loan. In that event, the conversation may shift to arrangements you can make to assure continuity of your business in case you are out of the picture. If you cannot offer satisfactory answers, the lender only may be interested in a short-term loan.

Getting a business loan is not a simple matter of filling out forms and having your credit rating checked. There will be forms to fill out, of course, and your credit rating definitely will be checked, but before you even get to that stage, you must make certain that your business plan is well prepared. Your written plan will describe your plans in detail, and help you "sell" your business to the lender.

In addition to the personal information in your prospectus (business plan), the lender will want many questions answered. There are four major questions:

1. Is there a market, and can your business get a big enough piece of it to survive and grow?

2. How are you going to organize your business?

3. What will be the financial picture of your business during the first year or two?

4. What is the long-term prospect for your business; what happens if you have to drop out of the picture?

Additional questions you will be asked concern your place in the market:

- o Is there a need for the products or services you want to sell?
- o Who will be your customers and how big a market do they represent?
- o How do you propose to reach the target market? What sales approaches and strategies will you use?
- o What proportion of that market do you expect to capture in the short-term and in the long-term?
- o Will that proportion add up to a workable basis for you to keep functioning and make an adequate profit?
- o Who are your competitors, and why do you believe you can compete with them?
- o What will be your price structure?
- o What are your short-term and long-term plans?

There also will be questions concerning your organization:

- o What physical arrangement and capital equipment are needed to start your business?
- o How will the plant be organized to produce your products or services?

- o How will you work with suppliers?
- o What would happen to the business if on your death or disability your capital had to be withdrawn?
- o How many employees will you hire?
- o Who will your key people be? What are their skills and qualifications?
- o Who will take your place if necessary?
- o Are employees with the required talents and skills available in the local labor market?

Most of these questions should sound familiar to you by now and many you may have answers for already. The best approach to a lender is to have a well-prepared business plan, know how to prepare a loan package, and be able to answer the many questions you will be asked.

Anyone who wants to borrow money to start a business also should pay attention to another major concern of lenders: the question of continuity. Lenders tend to be especially wary of sole proprietorships. They are reluctant to lend money to businesses that are likely to die when the principal owner or key person dies, becomes disabled, or simply quits because of boredom or fatigue. A lender may require you to purchase a "key-man" insurance policy to guarantee repayment of the loan in the event of such misfortune. Because of this concern, it may be a good idea for an older entrepreneur to team with one (or more) trusted, qualified, and dedicated younger associate. This is known as an intergenerational business venture. By providing a clear line of succession, you give the lender automatic assurance of continuity.

The Venture Capitalist

The essential difference between venture capitalists and the lending institutions is one of emphasis. Lending institutions are interested in your potential for success because they want you to be able to repay the loan and return for more loans later on as you grow. Venture capitalists want to know if your business is worth buying into, because that is precisely what you are asking them to do. You are attempting to sell "a piece of the action." Therefore, you should keep in mind that a venture capitalist who makes a major investment in your business may expect to have a great deal to say about how it is run, because the investment is made with the expectation of sharing in the profits.

Locating a venture capitalist may require some personal "connections." Venture capital is usually supplied by small business investment companies -- SBICS or MESBICS (Minority Enterprise SBICS) -- that specialize in investing in businesses.

Furthermore, venture capitalists are interested in the same kinds of information as are lending institutions. They want to know:

- o Your qualifications and those of your associates.
- o Your financial picture, including your assets, liquidity, and how much money you are putting up personally.
- o The capital equipment you need.
- o Your organizational structure.
- o Your short-term and long-term plans.
- o The market for your product or service and your marketing strategies.
- o The potential for success, growth, and continuity of your business.

There are a number of small business investment companies around the country that are licensed by SBA and receive SBA loans for the exclusive purpose of investing in small businesses. The companies have an association that publishes a membership directory telling the location of each member firm, the kinds of businesses they specialize in, and the size range of their investments. You can obtain the directory from the National Association of Small Business Investment Companies (NASBIC) in Washington, D.C.

The Reality of Obtaining a Business Loan Today

Obtaining a business loan today is a very formal process, unlike in the "old days" when it was easier to know a banker and have a personal relationship. Although character, capacity, credit, and collateral always have been essential in getting a business loan, it certainly helped if the banker already knew you or if your parents grew up together in the same community. Some of the personal touch still remains in small town and rural banks, but more and more smaller local banks are being absorbed by bigger ones that convert them into branch offices. There is a disconcerting tendency for branch managers to be transferred to other branches or up the corporate ladder, so about the time a branch manager gets to know you and understand your needs, a transfer occurs and you have to start all over again with someone who sees you as a total stranger.

Shopping for the Best Deal

The lending industry is not uniform. Interest rates vary among institutions, though not greatly. Still, even a difference of a fraction of a

percentage point can add up to a significant sum of money when a substantial amount is borrowed for, say, three to ten years. It is worthwhile to shop for the lowest possible rates.

You also should be aware that this may be a poor time to borrow money to start a business. Interest rates may continue to be high, and if business conditions are poor, business loans may be very hard to get. If you have to rely on loans at a high prime rate, you may be taking on more of a debt service than your business can afford. If you get involved with a high interest loan and interest rates drop, you should be alert to opportunities for renegotiating your loan or borrowing to pay off the first loan and replacing it with one calling for a lower interest rate.

The interest rate is not the only consideration, however. Institutions also vary in their willingness to negotiate repayment patterns that accommodate the peculiarities of specific types of businesses. For example, if your kind of business has pronounced seasonal peaks and valleys, and if they are regular and predictable, it is possible to negotiate a loan repayment schedule that will allow you to make lower payments during the slow season and higher ones when business is good.

Whatever options you choose when negotiating a small business loan, there will be both benefits and limitations. You will need to collect all the information about business loans you can and decide on the option that best meets your needs.

An excellent source of information is published by the American Bankers Association (ABA) in Washington, D.C. Small Business Financing, a booklet "designed to help you determine your financial needs and explore alternative types and sources of financing," was published in 1980.

SUPPLEMENTAL INFORMATION

Applying for a Loan

Following is a checklist of things you should do when applying for a loan at a bank.

1. Have a checking account at the bank before applying for a loan.
2. Always be positive, never uncertain if your purpose is a loan.
3. Convince the loan officer that giving you a loan will create deposits for his/her bank and will increase your business cash flow.
4. Remember the bank requires: (a) capacity to repay and (b) collateral.

The following items should be included in an information package for a loan.

1. Completed business plan (which will include some of the following items).
2. Income Statement (Profit and Loss Statement) and Balance Sheet for the past three years if possible, in a Presentation Folder, prepared by a CPA or accountant.
3. Accounts Receivable and Accounts Payable, and age of accounts.
4. Pro Forma Statements (projected financial statements: Balance Sheet and Profit and Loss Statement).
5. Inventory with description.
6. Equipment listing with liens indicated.
7. Insurance coverage.
8. Pictures of business or equipment to be purchased.
9. Major suppliers.
10. Major customers.
11. List of professional consultants: lawyer, accountant, insurance agent, banker, etc.
12. Resumes of key employees.
13. Personal financial statement.

SUPPLEMENTAL INFORMATION

Guide to Obtaining Financing

Once you have determined that you need to obtain financing for your business, you need to consider applying for a loan or interesting someone in investing in your business.

There is some basic information any lending agency will want to know when you apply for a loan. The following information is reprinted from the Business Development Committee of Rosemead's Chamber of Commerce publication, "What You Should Know and Do When Starting a New Business," Rosemead, California.

What Does the Bank or Other Lending Agency What to Know When You Apply For a Loan?

1. Like all good selling, obtaining a business loan requires a complete presentation of the product. In this case, the product is you, your managerial ability, and your business. Banks, as well as other lenders, usually require applicants for business loans to be able to show:

    - o Good personal character and reliability.
    - o Sound business ability.
    - o Success in past business ventures or sufficient knowledge of business methods to give promise of future success.
    - o Adequate investment on the part of the proprietors.
    - o Reasonable need for a loan; reasonable probability of repayment on time and in full.

2. Bankers expect you to give factual information which may be evaluated and verified preliminary to making a loan. Most banks have application forms upon which the information may be listed. They vary somewhat from bank to bank.

    You will be able to comply with all requests for information if you organize your information and thinking along the lines outlined below. What is the information required by banks? They seek the following:

    a. How your business is organized (corporation, partnership, or proprietorship). This makes a difference in the liability feature.

b. The nature of your business and when it was organized. Have there been any recent changes in your business name or nature of operation?

c. Personal data concerning the principal owners. For example, include the age and marital status of you and your partners or principal stockholders. Where do you have your personal bank accounts? In what business and civic organizations do you have memberships? Do you and your associates carry life insurance? In what amounts, and who are the beneficiaries? Is there any life insurance carried by you or your associates for the benefit of the business? Past credit history references.

d. Business banking connections: Where does your business maintain bank accounts? What is its bank indebtedness? Is there any indebtedness other than with bankers? If the business is organized as a partnership, do the partners have any contingent debts outstanding?

e. How do you propose to repay the loan and what is the purpose of the loan?

3. In many ways, the purpose of the loan is the most important feature of the loan application. The lender wants to be sure the loan will be used for a necessary business purpose. Your ability to establish that will be extremely helpful. To prove your business need for a loan, you should cover such points as the following:

a. Is it for a business operation of a self-liquidating character? For example, is the loan needed to finance the purchase of merchandise which can be sold before the loan is due?

b. Do you have orders for merchandise which will require additional working capital to manufacture?

c. Will the funds be used to purchase equipment having a general purpose or a specialized one?

d. How did you arrive at the amount of the loan requested? Is it the minimum necessary for the intended purpose?

4. Your bank will want to talk about your prospects. You must be ready to:

   a. Give a brief account of the future of your business in terms of such questions as the probable demand for its products or services, and the presence, absence, or prospects of competition.

   b. Show what will be your probable future ability to obtain raw materials or supplies of merchandise and what the costs will be.

   c. Show what you think future price levels will mean to the valuation of your present inventories. How is your inventory valued?

   d. Point out any other items which will shed light upon your business.

5. Your bank will, of course, ask you for a balance sheet. In it you will list your business assets and liabilities as of some recent date, and for comparative purposes, the same information for the previous year. In doing this:

   a. Show proper reserves for depreciation.

   b. State how your inventories have been valuated. Ordinarily they should be valued at cost or market, whichever is lower.

   c. Give the dollar amount of accounts considered past due or doubtful, or show an adequate reserve for bad debts.

6. Your bank also will ask for a summarized statement of last year's sales, costs of doing business, and net profit before income taxes. At least one previous year must be shown for established businesses. If several years' data are offered, it will be helpful. This should include information on how much you and your partners are drawing from the business, or how much dividends have been paid in recent years.

7. Your bank will ask you for income tax returns that support the information supplied on your balance sheet and profit and loss statement.

8. If yours is a new business, you will not have much of the foregoing information. What should you collect?

   a. Have some ideas about how you will use the financing to operate your business with success.

b. Prove that you have built up a reputation for paying your obligations when due.

c. Show you have had adequate business experience in this or a similar line of effort.

d. Show you have sufficient financing of your own to warrant a lender taking a reasonable risk in advancing part of your financial needs.

e. Perhaps show you have on hand unfilled orders or business prospects or a character giving reason to believe that you can produce sufficient income to repay the loan.

Aids in Choosing the Bank Best for You

It is important to choose your bank wisely. Here are points to watch:

1. If you can, choose a banker who is willing to assume a risk, providing there is a reasonable assurance of repayment.

2. Choose a progressive banker, one who is alert to current industrial trends, willing to make loans for new products and more efficient processes. She/he knows that, in the world of rapid change, risk is a matter of careful analysis, not merely of traditional soundness.

3. Choose a banker who has confidence in the future of your community and is willing to invest in it.

4. Make sure the bank is the proper size for your business, taking into consideration its lending ability under the statutes.

5. See whether the bank can buy securities for you or take them for safekeeping if you want to do this.

6. Find out if it has night deposit/safe deposit services.

7. Be certain that its officers are accessible for conferences with you when you require them.

8. Find out if its deposits are guaranteed under the federal statutes.

9. Find out what service charges will be assessed to maintain your account. Will an earnings allowance be given as an offset against servicing expenses?

10. Does the bank assess a charge for checks deposited which are returned? Can they assist you in collection?

11. See if it will willingly furnish you the data you need concerning your customers or trade.

12. Make sure the bank is located so as to:

    a. Facilitate moving your funds for deposit.

    b. Cash checks for the office or employees.

    c. Cash payroll and petty-cash checks at a minimum risk.

    d. Be of assistance to employees in savings accounts and other matters.

Your community banker may be more receptive to you than one in a large city. On the other hand, large banks sometimes charge rates below those of their smaller competitors. Your only answer here is to compare.

Many banks are now setting up special small business departments. These are helpful, as long as the rates are favorable.

Do not change a seasoned banking relationship without good reason. On the other hand, do not remain dependent upon your present connection if you are sure you can do better elsewhere, not only now but over a period of time.

(end of reprint)

The Loan Package

Banks, other lending agencies, and investment firms all demand extensive documentation of a loan application. Before preparing a loan package, check with the specific lender to determine exactly what is required in a loan package and pick up the necessary application forms. Almost any loan package will include the following information:

1. Personal background information, including a resume, experience in the field, education and work history, credit references, income statements, and a recent personal financial statement.

2. A summary of the business, including a description of the business loan, repayment terms, equity or investment of the borrower, and security or collateral for the loan.

3. A complete business plan.

Evaluating a Loan Request

There are five basic criteria that most loan officers take into consideration when evaluating a loan package. They are listed below:

1. **Character** -- the applicant's attitude toward credit will be examined, including past credit history.

2. **Capacity** -- the applicant's ability to pay back the loan. Sources of income that would have a bearing on the ability to pay back the loan.

3. **Capital** -- the applicant's personal worth, i.e., savings, property, stocks, bonds, or any other personal or real property.

4. **Conditions** -- the economic conditions of the particular industry within which you are starting a business, the community, the state, and the nation.

5. **Experience** -- the applicant's experience in the business or related expertise, skills, and managerial experience.

Selling Your Idea

Perhaps the least talked about but equally important aspect of obtaining financing for a new or old business is the ability to sell your idea to the loan officer or investment representative. You may have prepared an excellent business plan and loan package, but unless you can communicate your business idea and plan effectively with the loan officer, you very well may not obtain the loan.

The primary message you want to convey to the banker or other lending representative is self-confidence, competence or know-how, commitment, and enthusiasm for your business and for yourself. There is no one way to communicate this message but you must think about it and practice it before you can communicate it to others.

Practice talking about your business with friends and family. Ask them to give you suggestions on the way you communicate. Watch yourself in a mirror to see how you communicate with your body; then have a preliminary interview with your banker to informally discuss your business plan and the loan process.

Source: Barbara S. McCaslin and Patricia P. McNamara, How to Start Your Own Business, Los Angeles, California: University of California, 1977.

SUPPLEMENTAL INFORMATION

Loan Interview

Make an appointment with your loan officer and have a preliminary interview about business loans. After your interview, complete part five below to determine the information and benefits you received from the interview.

1. Go to your own bank or select a bank according to the tips suggested in the Supplemental Information factsheet, "Guide to Obtaining Financing."

2. Call the loan department and ask to set up an interview with a loan officer to discuss how to apply for a loan. Explain that it is to be a preliminary interview. If the bank cannot or will not set up an appointment, ask for a referral to another bank.

3. Be prepared with the following information before the interview. Volunteer this information during the interview. Do not wait to be asked!

   - o How much you ideally would like to borrow.
   - o A completed personal financial statement.
   - o A brief description of your business idea and plan.
   - o How much of your own money you can invest. (It should be 40-60 percent of the amount you want from the bank. For example, if you are asking for $10,000, you should have $4,000-$6,000 of your own money to invest.)
   - o Whether you will apply for a loan independently from your spouse or jointly.

4. During the interview ask for the following information:

   - o Whether the bank specializes in any particular type of business loan.
   - o A copy of the bank loan application form.
   - o The procedures for applying for a loan and what is required in the loan package.
   - o If the loan officer says that the bank cannot or will not consider a loan application from you, ask for an explanation. Ask for advice and/or referrals. Thank the officer for the interview.

5. After the interview, answer the following questions on a separate sheet of paper:

   o What bank or lending agency did you visit?

   o What was the date, time, and length of the interview?

   o What was the title of the person with whom you had the interview?

   o Did you feel prepared for the interview?

   _____yes _____no Please explain your answer.

   o What questions did the loan officer ask you?

   o What information and materials did you get from the loan officer?

   o What problems did you encounter?

   o Did you change your business idea or estimate of the amount you want to borrow based on the information you received in the interview?

   o What overall impression did you have of the interview?

   o Do you consider this bank a potential lending source to start your business?

   _____yes _____no Please explain your answer.

   o Any other comments or questions.

Source: Barbara S. McCaslin and Patricia P. McNamara, How to Start Your Own Business, Los Angeles, California: University of California, 1977.

SUPPLEMENTAL INFORMATION

Considerations in the Loan Proposal Package

1. **Amount: Specific — Justify — What is the amount you need?**

2. **Purpose: Be Concise — To The Point — Why do you need a loan?**

3. **Repayment: When and how are you going to repay the loan?**

   Short-term (less than one year) -- "Working Capital"

   Long-term (over one year) -- "Term"

   Gear repayment to source of income (and sometime collateral value).

   Term Loan:

   - o Purchase equipment.
   - o Leasehold improvements.
   - o Expand.
   - o Finance permanent increase in receivables and inventory due to sales increase.
   - o Refinance existing debt more economically.

   Line of Credit: receivables financing.

   Sources of repayment:

   - o Conversion of assets to cash.
   - o Retained cash profits.
   - o New capital in cash.
   - o Borrowing from another source.
   - o Guarantors.

4. **Collateral: What have you that represents dollar value?**

   Type, value, quantity, basis of value, date, and source of valuation. Maybe also marketability, restricted use, quality, etc.

   First lien interest needed.

   Insurance: hazard, flood, life, etc.

   Receivables, inventory, equipment, real estate, assignment of rents, etc.

5. **Business History — Management: What will best describe your business?**

Names of managers and their ownership; capital investment (25 per cent plus, 50 percent); probability of changes within the loan term; years of experience in the field and in management; management ability.

Nature of business; form of business (sole ownership, partnership, corporation); associated businesses.

Relative size in the industry; competition.

Date business originated; when present management began control.

6. **Credit References: What organizations, institutions, firms, or persons will give you good credit references?**

Bank, trade, other in writing; credit cards are good, current, and easy to check.

7. **Guarantors: Will there be any guarantors?**

Names; amounts; financial statements.

What is their ability to pay the loan if needed?

Statement of personal history: social security number, date of birth, residence, work, education, etc.

Secured or unsecured.

8. **Financial Condition: What is your present financial**

Financial Statements:

o Personally prepared versus CPA prepared.

o Compiled; reviewed; or audited.

o Balance Sheet; Profit and Loss Statement; source and application of funds.

Debt to income analysis:

o After Tax Income
  Plus Depreciation
  Less Fixed Payments
  Margin (for breathing room, future needs, capital growth, living expenses)

o Pro Forma Balance Sheet; Profit and Loss Statement; Cash Flow (planning ahead).

o Budget/Projections.

What records and facts do you have to substantiate your financial condition?

Balance Sheet:

o Snapshot of one moment, one date.

o Assets: What you own.

o Liabilities: What you owe.

o Net Worth: Assets less Liabilities.

Source: Jerry Leadham, Business Division, Clackamas Community College, Oregon City, Oregon.

SUPPLEMENTAL INFORMATION

Requesting an SBA Loan for Starting a New Business

The following are procedures to use when requesting an SBA guaranteed loan to start a new business.

1. Describe in detail the type of business to be established, owner's experience, product or service, etc.

2. Prepare a projection of earnings for the first two years of operation adequate to satisfy loan requested and other obligations.

3. Submit details of how you intend to create the sales volume and profits to repay loan.

4. Describe in detail how the funds from the loan will be used.

5. You must have a reasonable investment in the business. Indicate how much of your own funds will be injected into the business.

6. Submit a list of collateral to be offered as security for the loan.

7. Terms of repayment:

   a. Up to 6 years for operating capital and purchases of inventory.

   b. Up to 10 years for purchase of machinery and equipment, furniture and fixtures, leasehold improvements, and renovations.

   c. Up to 20 years for construction of a new building.

8. Take this material with you to a commerical bank. Ask the bank for an SBA Loan Guaranty Application.

9. If the bank is interested, they will give you the loan application and related forms. Complete the forms and return them to the bank, which will in turn forward them to SBA with a cover letter.

To Purchase a Business

1. Obtain two prior years of tax returns (Balance Sheets and Profit and Loss Statements from seller).

2. Submit a copy of purchase-sale agreement.

3. If a franchise business, submit copy of franchise agreement.

4. Follow procedures 1 through 9 above.

Source: Brevard Community College, Florida, SCORE Chapter.

APPENDIX A

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APPENDIX B

Sources of Assistance and Information Needed for Going Into a Small Business

Community Resource List

Before you begin your business, you should find the resources in your community that can help you. Fill in the blanks below as you continue in class. Your instructor will be able to assist you in gathering the information.

Name	Address	Phone
Banker		
Lawyer		
Accountant		
Insurance Ageny		
Chamber of Commerce		
Better Business Bureau		
U.S. Department of Labor, Wage/Hour/Public Contracts Division		

Local Office, Internal Revenue Service for Employers' ID Number and "Tax Guide for Small Business"

_____ _____ _____

Social Security Office (employee withholding tax)

_____ _____ _____

City Office of Licenses and Permits (contact City Hall)

_____ _____ _____

County Office of Licenses and Permits

_____ _____ _____

Unemployment Compensation Field Tax Office

_____ _____ _____

State Department of Revenue

_____ _____ _____

Department of Labor and Employment Security Division of Workers' Compensation

_____ _____ _____

Potential Suppliers

_____ _____ _____

_____ _____ _____

_____ _____ _____

Business Owners I Know

_____ _____ _____

_____ _____ _____

_____ _____ _____

State Department of Business Development, Department of Commerce, Division of Economic Development

_____ _____ _____

Trade Associations and Journals

_____ _____ _____

_____ _____ _____

State Adult Education Department

_____ _____ _____

Local College Adult Education Department

_____ _____ _____

Local High School Adult Education Department

_____ _____ _____

U.S. Small Business Administration

_____ _____ _____

SCORE/ACE

_____ _____ _____

State Employment Service

_____ _____ _____

Libraries (business section)

_____ _____ _____

Source: Center for Small Business, Daytona Beach Community College, Daytona Beach, Florida.

APPENDIX B

Sources of Assistance and Information Needed for Going Into a Small Business

National Small Business and Older Persons Resources

The following organizations are listed as Older Persons-Small Business resources to contact at the national level for additional information.

Title	Address	Phone
American Association of Advertising	1899 L Street, NW Washington, D.C. 20036	(202) 331-7345
American Association of Retired Persons	1901 K Street, NW Washington, D.C. 20006	(202) 872-4700
American Bankers Association	1120 Connecticut Avenue, NW Washington, D.C. 20036	(202) 467-4000
American Bar Association	1800 M Street, NW Washington, D.C. 20036	(202) 287-6012
American Institute of Certified Public Accountants	1620 I Street, NW Washington, D.C. 20006	(202) 872-8190
American Insurance Association	1025 Connecticut Avenue, NW Washington, D.C. 20036	(202) 293-3010
American Telephone and Telegraph Public Affairs	1120 20th Street, NW Washington, D.C. 20036	(202) 457-3810
Chamber of Commerce of the U.S. National Headquarters	1615 H Street, NW Washington, D.C. 20062	(202) 659-6000
Green Thumb, Inc.	1012 14th Street, NW Washington, D.C. 20005	(202) 789-5400
Internal Revenue Service	1111 Constitution Avenue, NW Washington, D.C. 20224	(202) 566-5000
National Advisory Council on Economic Opportunity	1725 K Street, NW Washington, D.C. 20006	(202) 254-3217 (202) 655-4000
National Alliance of Business	1015 15th Street, NW Washington, D.C. 20005	(202) 457-0040

National Association of Accountants	1666 K Street, NW Washington, D.C. 20006	(202) 862-3100
National Association of Attorneys General	444 N. Capital Street, NW Washington, D.C. 20001	(202) 624-5456
National Association of Business Investment Companies	1435 G Street, NW Washington, D.C. 20005	(202) 368-3411
National Association of State Units of Aging	1828 L Street, NW Washington, D.C. 20036	(202) 466-8529
National Bar Association	1900 L Street, NW Washington, D.C. 20036	(202) 463-4200
National Business Education Association	1906 Association Drive Reston, Virginia 22090	(703) 860-0213
National Council of Senior Citizens	1511 K Street, NW Washington, D.C. 20005	(202) 347-8800
National Council on the Aging, Inc.	600 Maryland Avenue, SW West Wing 100 Washington, D.C. 20024	(202) 479-1200
National Federation of Independent Business Owners	L'Enfant Plaza East, SW Washington, D.C. 20024	(202) 554-9000
National Savings/Loan League	1101 15th Street, NW Washington, D.C. 20005	(202) 331-0270
Rural America, Inc.	1346 Connecticut Avenue, NW Washington, D.C. 20036	(202) 659-2800
Rural American Women	1522 K Street, NW Washington, D.C. 20005	(202) 785-4700
U.S. House of Representatives Small Business Committee	2361 Rayburn Building Independence Avenue, SW Washington, D.C. 20510	(202) 225-5821
U.S. Senate Small Business Committee	424 Russell Building Constitution Avenue, NE Washington, D.C. 20510	(202) 224-5175

APPENDIX C

Selected Readings

The Seven Ingredients of Success

by

Vivian Buchan

Anyone who believes success is something you haphazardly catch or find hasn't discovered that there is a scientifically simple way to become an achiever.

Success means different things to different people.

Webster defined it as "a favorable termination of a venture."

Disraeli said, "The secret of success is constancy of purpose."

Theordore Roosevelt remarked, "The most important single ingredient in the formula of success is knowing how to get along with people."

Helen Keller commented, "Not the senses I have, but what I do with them is my kingdom of success."

No matter what success means to you, you'll never achieve it by wishing for it or chasing after it! No one ever finds success or comes to failure. The seeds for both are imbedded in your personality.

In Psycho-Cybernetics, Dr. Maxwell Maltz says success results from a mixture of seven ingredients. Together, these ingredients or personality traits make it possible for us to deal effectively with our environment and the people in it, to cope with reality and to relate to the human qualities in ourselves and others.

If you put these seven ingredients together, the result invariably will be success -- no matter how you define it.

Here they are:

- S -- sense of direction.
- U -- understanding.
- C -- courage.
- C -- charity.
- E -- esteem.
- S -- self-acceptance.
- S -- self-confidence.

Now let's see how each ingredient contributes to the successful outcome of an endeavor.

Setting Goals

o Sense of Direction

This is absolutely fundamental. Without it, our goals remain elusive and vague. We're goal seekers by nature. Unless we establish specific goals, we wander around in circles getting nowhere.

We all have a natural drive to control our environment, solve our problems and achieve our goals. When we don't cope with these challenges successfully, we become depressed and purposeless.

To get a sense of direction, ask yourself, "What do I want of this job or do I even want it at all? Am I progressing or just marking time until something happens to come along and make things better? Where do I want to be 10 years from now?"

o Understanding

It's pathetic how much we misunderstand the people with whom we live and work. We either say too much or not enough. We forget, too, that people may react to what we say or do from a perspective that is different from our own.

Part of this misunderstanding results from the emotional climate that surrounds connotative words. These words arouse emotions that vary greatly from one individual to another. For example, what does the word "red" conjure up in your mind? A sunset, a rose, your friend's hair, an apple, a valentine, your son's tricycle, your new necktie or scarf? Or does it make you think of fire, war, hatred, blood, explosions, gunfire, traffic lights, communism?

So when you say, "He makes me see red," that statement may not be interpreted the way you want it to be.

Reactions to emotionally charged words often cause difficult-to-understand rifts in relationships.

Understanding results when we ask ourselves, "Now, I wonder how he is going to interpret this statement? How does he really feel about this idea?

We must never lose sight of the fact that we are not logical or rational creatures. We are emotional creatures who react emotionally whether it's an overt response or one disguised beneath a veneer of good manners.

Become skillful at reading emotional feedback clues and you'll be able to establish the kind of communication that leads to understanding.

o Courage

It's been suggested that incurable gamblers are afraid to gamble on themselves, so they gamble at Las Vegas or the racetracks. They lack faith in their own ability and talents, but they do have enough courage to resort to negative pursuits. The truly courageous person, however, puts his courage to work in a positive way.

Admiral William F. Halsey's personal motto, in the words of Admiral Nelson, was: "No captain can do very wrong if he places his ship alongside that of an enemy." Halsey believed the best defense is a strong offense. "All problems," he said, "personal, national or military become smaller if you don't dodge them, but confront them head on."

William Nichols, author of Words to Live By, wrote, "Touch a thistle timidly, and it pricks you; grasp it boldly and its spines crumble."

Granted, it takes courage to put your abilities on the line when you're not convinced you're good enough to win. But all gamblers lose now and then. It's impossible to beat the odds all the time. The successful person faces that reality and gambles bravely.

General R. E. Chambers, chief of the Army's Psychiatry and Neurology Consultant Division, says, "Most people don't know how brave they really are. If they only knew they had deep resources, it would help give them the self-reliance to meet more problems, even a big crisis."

o Charity

Most of us think charity means giving money or help to the less fortunate. But Webster defines charity as "benevolent goodwill toward or love of humanity." There's nothing there about money, is there? We've heard it said, "Charity begins at home," and that comes very close to the truth. Charity begins with the way we relate to other people.

The time we spend listening to the fears, longings, hopes, and needs of others is time well spent. When you're in touch with the feelings of others, you develop understanding. You realize the fellow working alongside you feels much the same as you do. As your respect and admiration for him grow, you develop those qualities in yourself. You gain self-respect, a quality that enables you to overlook the mistakes of others as well as your own.

Most of us can forgive another's mistakes more easily than our own. Successful people forgive and forget their errors, and look ahead to the next challenge.

o Self-esteem

A psychologist once said, "Of all the traps and pitfalls in life, self-disesteem is the deadliest and hardest to overcome. It is a pit designed

and dug by your own hands, summed up when we say, "It's no use -- I can't do it."

The person filled with self-doubt is jealous, resentful, bitter and defensive. The feeling of inadequacy gives rise to negative emotions.

People who've lost faith in themselves -- or never had it -- become whining and dour folk who lack self-esteem. The successful person, on the other hand, thinks, "I'm what I am and I appreciate myself for what I am." And that's not egotism. It is simply placing the proper value on what you have and working with it to the best of your ability.

Winning Respect From Others

No one else will respect you until you respect yourself. The person who keeps telling his boss, "I doubt I can handle that project. I don't think I have enough ability to cope with the problems I'll encounter," begins to convince the employer it's time to start looking for a replacement.

The person who says, "I've never handled such a project before, but I'm glad to have the chance to try. I've solved problems just as tough so I imagine I can solve these, too," displays self-esteem that wins respect from supervisors and co-workers.

o Self-acceptance

The killjoy is the person who can't accept himself for what he is. He wants to be someone else, live like someone else, achieve like someone else. He's always looking at those he thinks are smarter, better looking, more popular, more affluent. And he imitates people he admires instead of being himself.

Success isn't achieved through imitation. It's achieved through creativity and ingenuity.

The successful person doesn't have time to moan about what he is or isn't. He's too busy for that. He takes what he has, what he is, and what he can do, and makes the most of it.

Children should be taught, "I'm okay, you're okay, even if I'm not you and you're not me." Children who are constantly compared to others develop self-doubts and, eventually, poor self-images. They then lack the ability to accept themselves as unique individuals.

o Self-confidence

The last ingredient grows out of self-esteen and self-acceptance. You have self-confidence when you take pride in your successes instead of moaning over past failures.

Mistakes are simply lessons to be learned. Dwelling on yesterday's error is as futile as grieving over the "F" you got on a third-grade arithmetic test.

Charles Kettering said, "Any young person who wants to be a scientist must be willing to fail 99 times before he succeeds once and suffer no ego damage because of it."

Edward W. Bok, a well-known editor, once remarked, "It's the young man of little faith who thinks he's nothing who fails. It's the young man of true conception who thinks he's everything who goes out and proves it. And that doesn't spell conceit or egotism. It simply means he does what he can do with gusto and enthusiasm. If he fails now and then, he picks himself up and remembers the times he's succeeded.

You should take time now and then to recall your successes. Relive those successful moments in your memory and you'll be reminded that you're more competent than you think you are when you've been put down by some mistake you've made.

Combine these seven ingredients whenever you strive for success.

Remember no one can give you success, sell it to you or make it for you. It's a personal effort. And the personal rewards you'll receive for every effort you make are likely to be even greater than you expect because success feeds on itself; every time you succeed, you're setting the stage for another success.

Source: The Toastmaster, April 1979, pp.28-29.

APPENDIX C

Selected Readings

The Second Time Around: Entrepreneurship as a Mid-Career Alternative

by

J. Donald Weinrauch

> Rivers have what man respects and longs for in his own life: a capacity for renewal and replenishment, continual energy, creativity, and cleansing.
>
> John M. Kaufman
> Flow East

Like rivers, many men and women are searching for renewal and replenishment. Many of these searchers are dissatisfied with their current careers. In a comprehensive report entitled, Work in America, written by the task force of the Department of Health, Education and Welfare, a striking conclusion was reached -- that job malcontentment is quite prevalent among both blue-collar and white-collar workers. Such discontent with work is common in all walks of life.[1] More pointedly, Harold Sheppard and Neal Herrick provide systematic evidence that increasing numbers of both white-collar and blue-collar workers feel "locked in" and desire mid-career change. Consequently, the authors conclude, one should be prepared to have two or three careers in a lifetime.[2] Such career change seems to be becoming more of a reality with the shifting needs of society and the changing preferences and interests of individuals.

Many individuals who seek new careers are turning to small business ownership. Through entrepreneurship, they hope to achieve "continual energy, creativity, and cleansing" -- the sense of renewal that Kauffman stresses. This article deals with the following facets of this process: (1) the impressive statistical data and trends relating to mid-career changes; (2) the prevailing entrepreneurial spirit in mid-career transition; (3) the salient and potential problems for changing careerists who become small business owners; and (4) the ways in which changing careerists can become better prepared to cope with their new midlife careers in entrepreneurship.

Statistical Data and Trends

Scholarly studies have indicated that career change is quite common. A U.S. Department of Labor study compared males who were in the labor force in 1965 with those who were working in 1970. It found that 32.2 percent of

the men surveyed had changed occupation. In terms of those who changed, the data was categorized by age: 37.5 percent of those from 30 to 39, 31.6 percent from 40 to 49, and 25.5 percent from 50 to 59 switched careers.[3] In another study based on Census Bureau data, 44 percent of a large sample of males from 45 to 49 years of age were found to have gone through a career change.[4] In a third study, the researcher investigated the career stability of a group of 21 to 70 year-old-workers over a five year period. He found that 10 to 14 percent shifted to different kinds of work within a mere five years.[5] In a fourth study, the investigator concluded that 55 percent of the responding middle managers in the American Management Association had either changed professions within the previous five years or were seriously considering a change to a new career.[6]

The studies cited above had different demographics, populations, and criteria for defining career change. Furthermore, the studies dealt mainly with the male population. Despite these weaknesses, it is safe to conclude from the data that a number of people in our society are seriously thinking about career changes, or have already selected a new career.

It is expected that mid-career change will be even more prevalent in the future. One factor that lends support to this view is the changing composition of the nation's population mix. By the year 2000 there will be 81 percent more adults 35 to 44 years old than at present, and the number of people over 55 will be up 27 percent.[7] Since the mid-career crisis hits most often between the ages of 35 and 50, many more Americans will be candidates for self-employment by the turn of the century.

Besides the changing age composition of the population, other factors can be expected to add impetus to mid-career changes: the life expectancy of the population is increasing; forced retirement at 65 is being eliminated; more women are entering the workforce; and there is ever greater incidence of quick exit and then re-entry into the labor force (on the part of child-bearing women, for example). In addition, an important psychological change has taken place in recent years -- an increased tolerance by our society of an attitude of hedonism. The "organization man" of the recent past has become somewhat outmoded; it is now far more acceptable for individuals -- including top managers or high business achievers -- to change organizations and pursue other professional and social interests.

The Entrepreneurial Spirit in Mid-Career Transition

It is estimated that a third of all executives who change careers will end up in a small, one-person business.[8] According to one business broker, the typical executive looking for his or her own business is a person who is in the mid or late forties whose children are finished with school and who is stalled in a career, tired of commuting, fed up with office routine, and looking for a new challenge.[9]

The entrepreneurial spirit is contagious among other professionals as well. For example, large numbers of civil service employees will retire

early from a government career; many of them will have the time, freedom, and capital to start a business venture. Also, as reported in numerous articles in women's magazines, there is a strong tendency today for women to consider small business owernship as an attractive career alternative. It has been suggested frequently that they can develop an increased sense of self-worth and personal satisfaction from such a change, while more effectively using experiences and skills acquired in managing the household unit.

It should be encouraging to students of entrepreneurship to observe the growing enthusiasm for small business ownership as a career alternative. Potentially, at least, late-blooming entrepreneurs can strengthen the small business sector and provide added vigor to the free enterprise system. However, this otherwise pleasant prospect is clouded by consideration of a serious practical question. Are these late-blooming owners prepared to meet the challenges and demands of a small business?

Adjustments and Problems in a New Career

Despite the virtues of new careers in self-employment, small business failures are not uncommon among second careerists. Although these individuals are usually older, have greater experience, and are more financially stable and secure than other new entrepreneurs, they still may have a difficult time adjusting to small business ownership.

Interestingly, most consultants and second careerists agree that a reverse shift -- from a small organization to a large one -- poses fewer problems.[10] In moving from a small to a large company the security and stability is greater and the transition much less traumatic. A high level of uncertainty and turbulence is inherent in the planning and implementation of a second career; this level increases with the requirements and commitments of self-employment.

The person entering a second career in entrepreneurship must be somewhat of a renaissance person. Small business management requires a keen mind and a desire to learn within a number of different areas. For the second careerist, it often requires a giant step from specialized skills and knowledge to the administration and integration of diverse operative and managerial functions. A former executive with a large company may still encounter serious problems in running a small business. Many managers in large organizations become quite spoiled, specializing to such an extent that they fail to keep up in other functional areas. In a large company they were able to call upon other specialists -- such as accountants, salesmen, personnel managers, or legal staff members -- to advise them on particular aspects of business problems. Consequently, when they begin a new entrepreneurial career, they may quickly learn some harsh facts about their own inabilities and weaknesses. For some, it may then be too late to develop the varied skills required of a multifunctional manager.

In short, selecting a new career -- especially one in small business management -- should not be done haphazardly. A career change of this type can be exciting and rewarding. However, if one is not cautious and farsighted, it may prove to be a major mistake. Thus, if the growing entrepreneurial spirit is to flourish among changing careerists, it is vital to develop in advance a systematic program for starting a new career in a small business.

The Planning Mix: A Second Time Around

Physical and Mental Conditioning

Small business management often requires long hours of exhausting mental and physical work. In the beginning, an entrepreneur frequently has to perform the physical labor personally to save costs. This may include such things as delivering and stocking heavy merchandise, cleaning the facilities, working irregular hours, picking up supplies, and constantly traveling to find new customers, supplies, investors, or even manufacturers' representatives. Abundant endurance and stamina obviously are needed when entering a second career of this type. A thorough physical checkup thus becomes essential before committing oneself to this or any other new career.

The prospective entrepreneur who is presently employed by a large firm should be able to use the company's fringe benefit package to obtain such a medical check-up without charge. Other aspects of the firm's fringe benefit package also should be evaluated at this point. For example, are some of these benefits (such as term life insurance) transferable? If a midlife career change is consummated, can the prospective small business owner afford to pay for benefits now provided at little or no cost? Have all family members used the options available under the umbrella of the large company's fringe benefit package? Planned dental work, surgery, stock options, and career counseling are among the opportunities that the prospective entrepreneur may wish to take advantage of before leaving the large company situation.

Family Support and Commitment

It is well known that some small business owners experience family-related problems due to the heavy commitment of time and energy required of them. Family problems may be even more prevalent among second careerists who have become self-employed. If care is not exercised, the small business can become a wedge between the entrepreneur and the spouse or other family members. Non-working family members may even feel excluded -- especially the husband or wife who is not involved with daily matters of the small business.

Problems of this type can be minimized if the career change is treated as a family commitment. All family members should have some input in the decision-making process. The need for a participative decision-making pro-

cess becomes even more critical if the new small business career requires a geographical relocation. Such a move — combined with the new demands of small business ownership -- easily can produce a profound sociological and psychological impact on the entire family.

If the career-change decision is affirmative, all family members must be prepared to make appropriate adaptations and adjustments. For this reason, good communication and a spirit of empathy among family members is critical. A cohesive and cooperative family unit is a major asset to the second careerist entering the "unfamiliar waters" of small business management.

Matching Self-Analysis and the Desirable Entrepreneurial Traits

Much has been written on the methods and importance of identifying desirable entrepreneurial traits before undertaking the management of a small business. Some critics argue that such studies, and the self-examining tests based upon them, are not reliable and valid. Others contend that the findings are typically so abstract or subjective (for example, an entrepreneur must be "decisive" and "self-confident") that they are of little value to would-be entrepreneurs in making real-life career decisions.

It is beyond the scope of this article to examine this debate in detail. Nevertheless, it may be helpful for the prospective owner to use self-analysis to compare his or her personal characteristics with those widely accepted as being desirable for entrepreneurship. Doing so may reveal previously unrecognized strengths, weaknesses, and needs, and help the individual make a better, more rational career choice. A favorable evaluation obviously will not guarantee success in the new business; however, an unfavorable one may cause some ill-fitted aspirants to eliminate small business as a mid-career alternative. Individuals in the latter group then can turn to the consideration of other, and possibly more promising, career options.

Financial Planning

Before deciding upon a new career in small business, the prospective entrepreneur should make a critical analysis of his or her financial status. Assets, liabilities, and other relevant items should be carefully identified and evaluated. Some small business owners making a mid-career change have a tendency to devote all of their savings to launching the new business. Consequently, little money is available for unforeseen emergencies or for operating the business.

Another common error among second careerists is putting too much money into fixed assets. Some falsely believe that a better impression is given and more security is created by spending money on "brick and mortar." The finances spent on capital items and the physical appearance of a business may give the new entrepreneur a positive feeling in dealing with relatives, friends, and previous business associates. Hence, a superficial justification is provided for a major -- and frequently risk-laden -- career change.

The income earned by a working spouse often gives the second careerists a dependable source of revenue during the difficult early stages of a new business. This opportunity has enabled many to be more daring than would otherwise be the case in making a career change. However, the second income should be used with caution. Sometimes the small business owners can become too dependent on this spouse's income as a source of operating revenue. As a result, the loss of this income due to economic downturn or a family-related reason (such as childbearing, sickness, or divorce) may prove catastrophic to the new owner. A second income in the family can expedite a new career in a small business, but it should not be viewed as a guarantee of success.

Develping Proper Contacts

A person planning or even thinking about a second career should take time to develop potentially useful contacts. It is never too late to form an effective business or social relationship with such key professionals as bankers, lawyers, accountants, insurance agents, contractors, business brokers, venture capitalists, marketers, business consultants, government representatives, and business professors. An examination of one's own background and experience will determine the types and depth of relationships that should be nourished.

A word of caution is in order. One must accept, with the proverbial grain of salt, advice offered by relatives and friends who may mean well but lack the type of expertise needed. Although advice of this type is usually free and nearly always readily available, it can be misleading and risky. Admittedly, it may be hard to turn down such advice, for it frequently comes from one's closest associates.

Moonlighting Can Brighten the Picture

Moonlighting is sometimes a desirable means of determining whether or not small business ownership is a viable career alternative. Moonlighting is becoming a very common activity in our society. The SBA reports that startup and expansion loans to sideliners increased by 27 percent in a recent three-year period.[11] According to the Society for Entrepreneurship Research and Application, part-time entrepreneurs comprise more than half of the 7.8 million proprietors who file with the Internal Revenue Service.[12] A third source concludes that one-third of all wage and salary workers who moonlight are self-employed on their second jobs.[13]

Starting out part-time has numerous benefits. These include:

- o Learning about oneself.
- o Seeing if family members can adjust.
- o Avoiding a dramatic and sudden loss of income from the first career.
- o Making additional income from sideline a business.
- o Developing valuable contacts for future full-time relations.
- o Learning and practicing sound managerial principles.

It should be emphasized, however, that even a sideline business can be risky. According to a district director of the Small Business Administration, although only a small percentage of sideline businesses may actually fail outright, about a third fold within a year for one reason or another.[14] Nevertheless, a part-time small business is a sound and comparatively safe means of pre-testing a midlife career decision.

Leave of Absence

Society -- including the big business -- is becoming more receptive to the idea of individuals taking temporary leaves of absences or sabbaticals. By this means, some people can attempt a small business on a full-time basis without severing previous occupational ties completely. Although many organizations insist upon prospective second careerists making a clean break, and will not grant a leave for this purpose, it is still a worthwhile possiblity to explore in seeking to lessen the risk of making a bad occupational decision.

Acquiring Essential Experience

Before changing careers and starting any type of business, it is extremely helpful to have some prior experience -- preferably managerial -- in the field one plans to enter. By gaining prior work experience, a prospective owner is able to identify more readily opportunities and problems within an industry and make helpful contacts with future customers, suppliers, managers, competitors, and trade associations. This experience may be acquired on either a full-time or part-time basis. Often with a large company, this is especially plausible if the company has a good management development program.

Although the need for prior experience may seem obvious, many people go into small businesses which are totally unrelated to their backgrounds. The business may not even deal with any previous hobbies or interests. Needless to say, the risk of failure is particularly great in such cases.

Planning

Implicit in the previous discussion is the idea that a person who is contemplating a career change to self-employment must carefully anticipate and plan for all of the ramifications. Prior planning and investigation should take into account many factors: type of business, financing, location, market targets, competitive profile, forecasted revenues, expenditures, and so on. Decisions on these important matters cannot be made overnight. Regrettably, insufficient planning dooms many small businesses to failure almost from the beginning.

Conclusions and Challenges

The suggestions made in this article are intended to provide a frame work for making new career decisions, thus increasing the chances for a

successful career transition. Many of these suggestions are interrelated; all are possible devices for minimizing anxieties and uncertainties while investigating occupational opportunities in small business management.

As mentioned, career changes are becoming an increasingly common aspect of professional life in this country. A responsibility, therefore, falls on various economic segments -- government, education, and business -- to provide constructive programs that will assist career-change decisions.

In education, for example, more than 17 million adults (25 years and over) are presently involved in some kind of higher education at colleges, universities, or other post-secondary schools. By the early 1980's, according to Census Bureau estimates, adults could form 40 percent of the total college enrollment.[15] A recent Wall Street Journal articles states that 40 million Americans are now going through career transitions and are prime targets for higher education.[16] College courses and continuing education programs in small business management are already popular among adult students. However, in these courses increased attention must be given to mid-career change as it relates to entrepreneurship. Also, educators in business need to better understand adult learning patterns and to adjust their teaching methods and curricula accordingly.[17]

Industry also can facilitate new career transition. Big business is currently spending increasing amounts for employees' personal and work-related concerns. Through various company programs -- counseling, sabbaticals, leaves of absences, out-placement, structured physical exercise programs, and executive development programs -- the employees are getting some assistance in career planning. Some of this assistance should be channeled into the area of entrepreneurship for second careerists. Such aid is not without benefits to large companies: a previous employee's small business often becomes a valued customer, supplier, or sub-contractor of the larger employer. Thus, a successful career change and a new, profitable small business may aid the former employer and society in general.

The federal government encourages self-employment. A recent report entitled, Small Business and the Quality of American Life by the Select Commitee on Small Business, emphasized the benefits of small businesses to both the owners and the free enterprise system. Washington's interest also is demonstrated by the 1980 White House Conference on Small Business. Pursuant to this interest and in recognition of the trend toward second-career entrepreneurship, government programs and federal programs in the small business area should be further improved, adapted, and extended.

George Elliot wrote: "It is never too late to be what you might have been." These words can serve as an impetus for those considering a mid-career change to self-employment. Such a transition can be a "crisis" or an opportunity for self-fulfillment. With proper direction and counseling, people can take charge of their own lives and make their new careers a wholly satisfying experience.

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